OMERS

Annual Report 2000

Building Value

Being Competitive

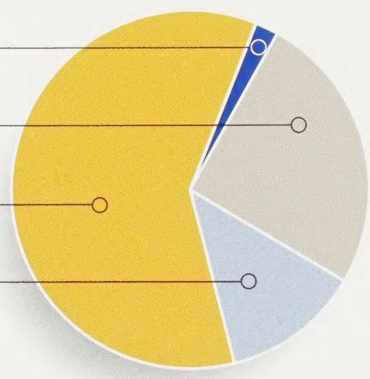
As one of Canada's largest pension plans, we have 295,000 members and more than 1,000 employers counting on us. OMERS is committed to delivering competitive benefits and cost-effective administrative and investment services.

QUICK FACTS

Asset Mix

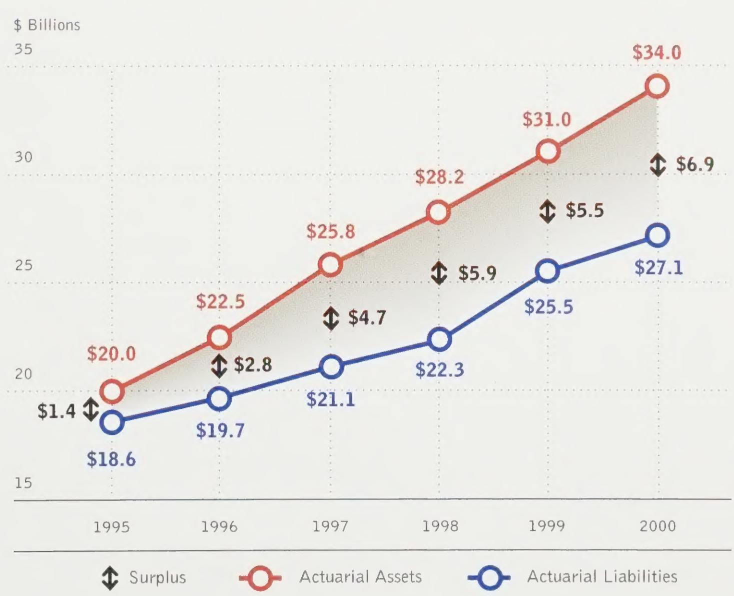
AS AT DECEMBER 31, 2000

Real Return Bonds	2.1 %
Fixed Income	25.8 %
Equities	59.1 %
Real Estate	13.0 %
Total	100.0 %

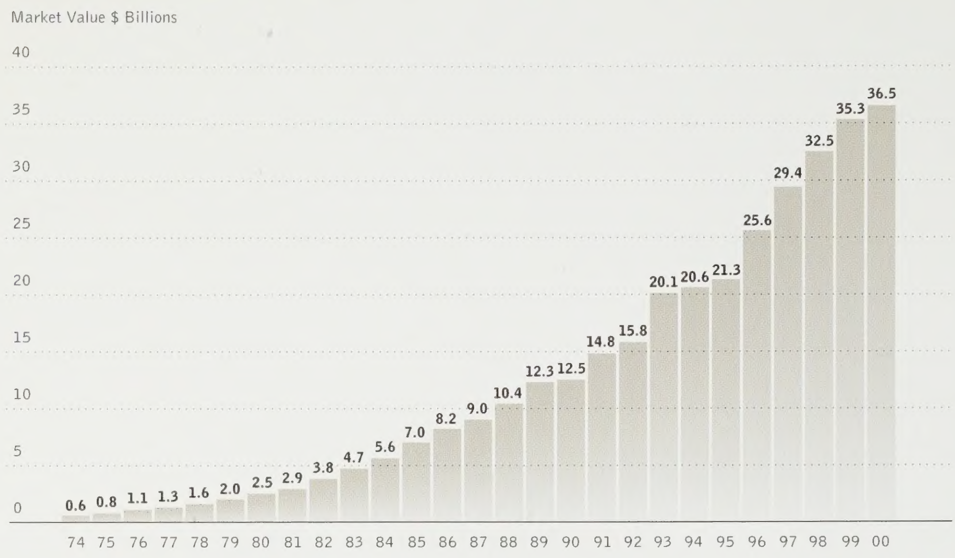


Actuarial Assets and Liabilities

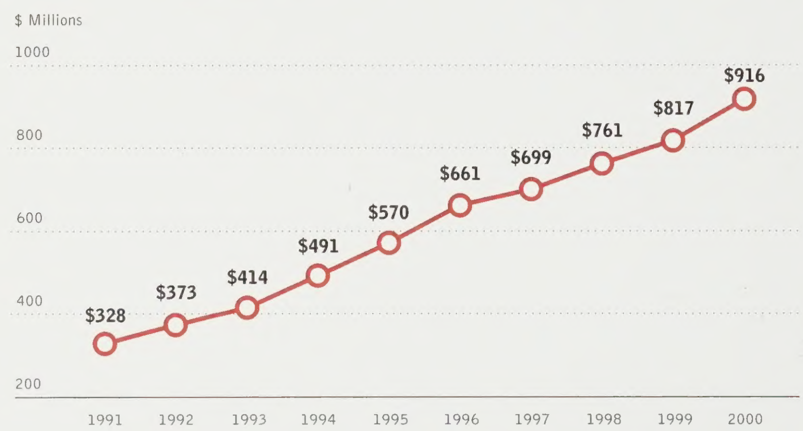
AS AT DECEMBER 31,



Asset Growth from 1974



Growth in Pension Payroll



OMERS Rate of Return vs. Funding Objective

As one of Canada's largest pension plans, we have 295,000 members and more than 1,000 employers counting on us. OMERS is committed to delivering competitive benefits and cost-effective administrative and investment services.

Buildi

We deliver value every day in how we manage the plan and respond to members. Our investment performance guarantees inflation-protected pension benefits. Managing to a surplus makes it possible to offer one of the lowest contribution rates among jointly-managed pension plans.

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We strive to be an industry leader in providing cost-effective pension services. Our members demand and deserve pension benefits and services that promise solid value. And we deliver.

Building value

Throughout OMERS history, we have ensured the security of our members' pensions by managing to a surplus. One key to our success has been our investment strategy. In 2000, we fine-tuned our asset mix policy to better meet the long-term pension needs of all plan participants. Because the Plan is fully funded, having a surplus puts us in a position to periodically make benefit improvements and provide other rewards for our stakeholders.

But building value is about more than just money. We have also built something tangible for employers, employees and retirees through jointly-managed governance so that OMERS belongs to them as an open, accountable and cost-effective pension organization.

Our commitment to our members and employers extends beyond Board representation. We have a long tradition of consulting members on major changes. Currently we are in a period of the most extensive consultation in our history: first seeking stakeholder input in 2000 on how the funding surplus should be managed; and this year asking for feedback on our future governance.

Consultation on the surplus

We have talked a great deal about surplus over the past three years with our stakeholders. In 2000, we reached out to them once again on

Peter Leiss

how best to manage the continuing surplus. We received written submissions from 18 employee and 19 employer groups plus 900 responses on our web site. A professional telephone survey of 800 active members, retirees and employers was also commissioned.

Not surprisingly, there was no clear consensus. Employees and retirees generally preferred permanent benefit improvements, while employers wanted to avoid choices that risked increased contributions in the future.

Following this input, the Board had to decide on a fair and affordable plan that balanced the interests of all stakeholders. The recommended package would extend the contribution holiday for active members and employers by an extra year through 2002. We also asked the government, which has the final say on plan changes, to approve enhanced lifetime OMERS pension benefits through a further reduction in the CPP offset, and also to allow a longer phase-out of the current early retirement program.

Funding concerns

The consultative process revealed concerns among stakeholders about whether there would be sufficient funds in the plan during an economic downturn.

Considering the highly volatile nature of capital markets, we share this concern. We have asked the federal government to amend

the *Income Tax Act* so that the current surplus limit of 110 percent of liabilities can be increased to allow better long-term planning. This change would allow us to build a cushion against an unexpected decline in asset values or an unexpected increase in future benefit costs.

Moving toward autonomy

In all this consultation, stakeholders underlined their trust in OMERS. In fact, many believe OMERS, not the province, should be responsible for plan changes. So do we.

OMERS has been discussing changing its relationship with the province since 1995. In 2000, the Government of Ontario agreed to consider the transfer of responsibility for Board appointments and plan changes to OMERS. It set out conditions to protect taxpayer interests and encourage a more active role by employers. The government assigned OMERS the leadership role in consulting with employers, employees, retirees and their associations, and recommending the best way to accomplish this transfer of responsibility.

One of our goals is a governance structure that expedites plan changes once they have been approved by the jointly-managed Board. Plan participants would no longer experience long delays in realizing the benefits of pension changes. But we want to preserve what has

worked well for nearly 40 years. Whatever the governance model, it is important that we continue to ensure our diverse plan participants are fairly represented, and that we maintain the benefits of economies of scale generated by a large plan like OMERS.

A framework for resolution

We hope to complete the consultative process in 2001 and make a recommendation in 2002 to the government on how to assume responsibility for Board appointments and plan changes. We urge individual members and employers, as well as their representative associations, to speak up on their expectations. Our objective is to preserve the best of an efficient and focused organization that is inclusive and continues to build value for all stakeholders. At the same time, we need a "made in OMERS" solution for making timely decisions on plan changes and other matters, all working in the best interests of those who pay for the Plan.

Peter Leiss, *Chair*

Being competitive

OMERS manages a highly competitive pension plan in the best interests of plan members, local governments and, through them, the taxpayers of Ontario.

By focusing on long-term results, we have made life financially easier for retired members, enabled thousands of workers to retire early with dignity, and through extended contribution holidays, put cash in the pockets of the men and women who work for municipal governments, school boards, libraries, police and fire departments, children's aid societies, and other local agencies.

Their employers have also shared the benefits of the surplus through a contribution holiday. This has lowered their operating costs to the competitive advantage of the province's economy by taking pressure off local taxpayers. In the past two-and-a-half years, the contribution holiday has saved local governments more than $1 billion.

Fulfilling the vision

Nearly 40 years ago, the Ontario legislature saw the wisdom of pooling pension contributions in a single organization to guarantee retirement income for all local government employees. Local governments gained cost efficiencies from an organization that can afford to hire the best professionals in plan administration and capital market investing. Many towns and villages, and numerous local agencies,

Dale E. Richmond

gained retirement benefits for their employees that they simply could not have afforded on their own. Members could maintain their OMERS benefits if they sought job opportunities in other local governments anywhere in Ontario.

The original vision continues to guarantee competitive pension benefits that, throughout OMERS history, have been improved whenever sufficient surplus was available. The ability to deliver an enhanced pension promise to individuals with widely diverse career paths is one of our greatest accomplishments.

Best-of-class benefits

A recent comparative study of eight major public sector pension plans confirmed our competitive leadership:

- Our normal contribution rates are the lowest among jointly-funded pension plans;
- We currently offer the most attractive unreduced early retirement incentives, including a younger retirement age than most of the plans;
- Our survivor benefits are at the top of the list;
- We are the only pension plan offering a full and extended contribution holiday to employers and employees;
- Our 100% indexing against inflation shares top billing with other pension leaders; and

- Once approved by the province, our proposed CPP offset (which will increase pensions immediately for retirees over 65) will be among the best in the industry.

Providing outstanding value

One of our goals is to be an industry leader in providing cost-effective pension services. Independent studies show that because of our size and efficiencies we provide substantial cost savings through economies of scale and specialization of management compared with smaller plans. Size makes it possible for us to hire top professional managers in plan administration, fund investment and corporate services.

In exchange for a reasonable contribution rate, employers receive reliable and cost-efficient administrative services that deliver retirement security to their employees. Employers further benefit from having OMERS monitor, analyze, recommend and implement appropriate changes and improvements in plan administration and member entitlements.

Competitive investor

We have also built one of the most competitive investment organizations in the Canadian pension fund industry. Our investment strategy and asset allocation policies maximize investment returns within prudent risk management guidelines. The expertise and effort of our

investment professionals have consistently earned a surplus of invested assets to guarantee future pensions. Furthermore, our investment performance has been in the top quartile of large Canadian pension funds for the past four years.

Pension plan of choice

Remaining competitive is a top priority for OMERS in order to reduce risks, minimize operating costs, and secure the best investment assets available. Behind this competitive drive is our philosophy of managing OMERS as if local employers and employees could choose another pension plan. This forces us to be a leader in providing the best pension value and member services possible.

Acknowledgements

I thank our Board for their leadership during the year in dealing with important strategic issues. I also thank our employees for maintaining high standards of professionalism in serving the interests of all our stakeholders.

Dale E. Richmond, *President and CEO*

OPERATING AN EFFECTIVE SERVICE ORGANIZATION

Our commitment to plan participants goes beyond offering competitive pension benefits that our members can rely on as the foundation for their retirement income. Our goal is to deliver high-quality service in everything we do.

Objectives

For retirees, our most critical role is to pay the pension benefits promised to each member on time every month. For all stakeholders – retirees, members and employers – our pre-eminent goal is to provide high-quality service in everything we do. This means prudent management of the Plan to deliver assured and competitive pension benefits at reasonable cost based on stable contribution rates.

Pension administration

The basic pension guaranteed by OMERS is based on 2% of the member's best consecutive five years of earnings multiplied by the number of years of credited service, to a maximum of 35 years. Those with 35 years of credited service no longer contribute. OMERS provides an additional bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP.

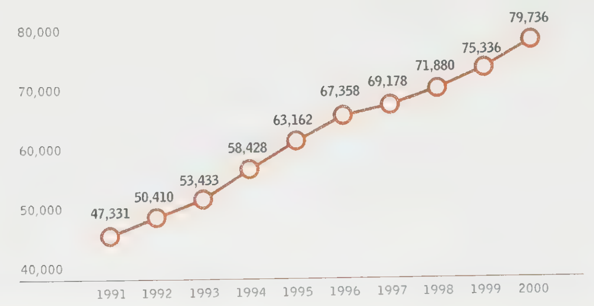
The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS Plan. The average salary in 2000 was about $42,200 and the average new pension was $17,864.

The pension payroll grew by $99 million to $916 million in 2000 as the pensioner population expanded by 6% to 79,736 people, including members receiving disability pensions, surviving spouses and dependent children.

Of the 6,759 new pensions processed in 2000, 67% were early retirements. That compared with 5,700 new pensions in 1999, of which nearly three-quarters were early retirements.

Expanding membership

Our membership continues to grow, partly because of renewed local hiring in response to the demands of a stronger provincial economy, and partly as the province



Growth in Number of Pensioners

continues to transfer services to the local level. On January 1, 2001 we welcomed close to 5,000 employees in Ontario social housing to OMERS. This follows the recent transfer of 1,100 Go Transit workers and 2,000 Ontario Property Assessment Corporation employees to OMERS.

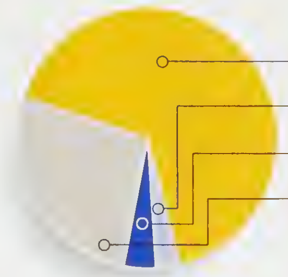
Latest plan improvements

In 2000, we were once again able to propose Plan improvements that will enrich value for all stakeholders. All but the extended contribution holiday must be approved by the provincial government. These recent surplus recommendations follow improvements introduced in 1998 and 1999.

Extended contribution holiday

The contribution holiday for employers and active members was extended until December 31, 2002, subject to annual review by the Board to ensure sufficient surplus is available. The holiday was triggered by a provision in the *Income Tax Act* that requires employer contributions to be suspended when the value of assets exceeds 110% of the present value of future pension benefits. The OMERS Act requires that member contributions cease when employers no longer contribute.

In total, employers and members will have enjoyed a 4 1/2-year contribution holiday since August 1998. When contributions resume, rates will be raised gradually, returning to normal by 2005. For members eligible to retire at 65, the normal contribution level is 6% of salary up to the Year's Maximum Pensionable Earnings (YMPE), and 7.5% after that. For members eligible to retire at 60 (most police officers and firefighters), it is 7% of salary up to the YMPE and 8.5% beyond that.



ACTIVE	193,827	66%
DEFERRED	9,256	3%
INACTIVE	11,930	4%
RETIRED/SURVIVOR	79,736	27%
TOTAL	**294,749**	**100%**

Member Profile

The YMPE for 2001 is $38,300.

Two other benefit improvements await provincial government approval:

Higher pensions for retirees

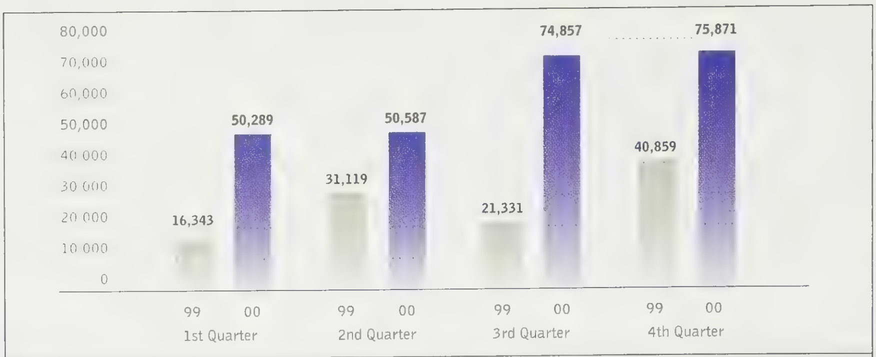
In 2000, the Canada Pension Plan offset was reduced from 0.7% per year of post-1965 credited service to 0.675%, retroactive to January 1, 1999. This is the formula used to integrate the OMERS benefits with the federal pension plan when a member turns 65. We now want to lower the CPP offset further to 0.6%, also retroactive to January 1, 1999.

The latest proposal will mean a 4% to 6% pension increase for most retirees, plus a lump sum payment for the retroactive period.

Balancing the cost of pension increases because of this initiative, employers will receive an equivalent credit toward their future contributions.

Extended retirement window

Early retirement incentives are currently available to members who retire within 15 years of their normal retirement age on or before December 31, 2001. We propose a slower closing of the early retirement window. The qualifying factor of age plus service would increase gradually until 2005, when normal early retirement conditions will apply – that is, within 10 years of retirement age with a 90 factor for those who normally retire at 65 and an 85 factor for those who normally retire at 60 (the current temporary early retirement factors are 80 and 75 respectively). This proposal will help members and employers during a period of continuing restructuring in the municipal sector. It will also assist employers to plan for workforce changes as a result of early retirements.



Number of Hits on the Web Continues to Grow

Customer-centered strategy

The introduction of benefit changes over the past two years, and the surge in early retirements, have dramatically increased work volumes. In 2000, for example, our client services staff met with more than 10,000 members and pension staff received well over 100,000 telephone calls. We are interacting more frequently with members and employers, a trend that will accelerate as we expand our electronic capabilities.

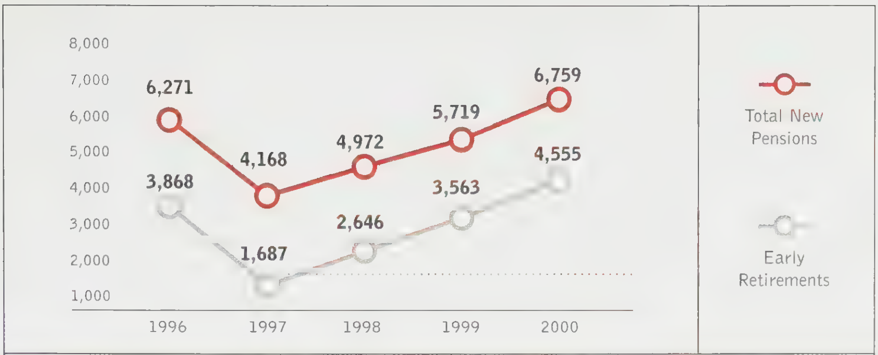
We are also introducing a new service structure built around customer-centered staff teams trained in multiple skills. The purpose is to focus on the customer and provide a single point of contact for each member's total needs.

Improved access for members

Members have indicated they want more information – and want it now – to plan their retirement years. One way in which we have responded is by redesigning the member's annual statement of benefits so that they have more complete information about their future entitlements.

Our newly designed and more user-friendly web site is fast becoming the primary source of timely and comprehensive information for most stakeholders. A new retirement planning section includes checklists, a net income worksheet and other useful information.

The pension calculator launched on our web site late in 1999 continues to gain popularity, with more than 10,000 hits per month. Called the Estimator, this industry-leading pension planner enables members to map their OMERS pension future by varying basic assumptions to calculate retirement options. This service complements requests for pension estimates and has helped members to be better informed when



Number of Retirements in Past Five Years

they contact OMERS. In 2001, we plan to expand the retirement planner to include income sources in addition to the OMERS pension.

Employer support

A priority is to make sure that advances in plan administration move forward together at OMERS and at employer offices. We follow a customer-centered approach, with increased site visits and training programs for local government staff. In 2000, we met with 600 employer representatives at 20 different training sessions. We will provide each employer with a single point of contact in 2001 and we already offer the electronic tools to handle many pension matters in a paperless form.

We have also expanded our employer support through our new Membership Service System, a custom-designed computer system that facilitates higher service standards.

Each week, we post on our web site our record in achieving pre-determined member service standards. The Customer Service Monitor is the first public accountability of its kind in the pension industry and illustrates the competitive attitude that drives our commitment to innovative service.

The new levels of service efficiency have considerably reduced the average time it takes to process retirement claims. Similar gains in processing time have been achieved in handling termination claims, pension quotes, disability claims, and buy backs.

DEVELOPING A GLOBAL INVESTMENT ORGANIZATION

OMERS has built a powerful investment organization to compete in domestic and global markets. Our long-term investment horizon and diversified portfolio emphasize stability of returns in order to pay secure pensions.

Investment objective

On average, the plan needs to earn 4.25% per year above the rate of inflation to meet the long-term cost of benefits. Although Canadian inflation has been low in recent years, it is projected at 3% annually over the long term. As a result, the nominal investment target for the next several years is 7.25%.

The investment objective assumes the plan will maintain a surplus as a contingency reserve against the risk of short-term declines in investment values. It also assumes stable contribution rates over the long term.

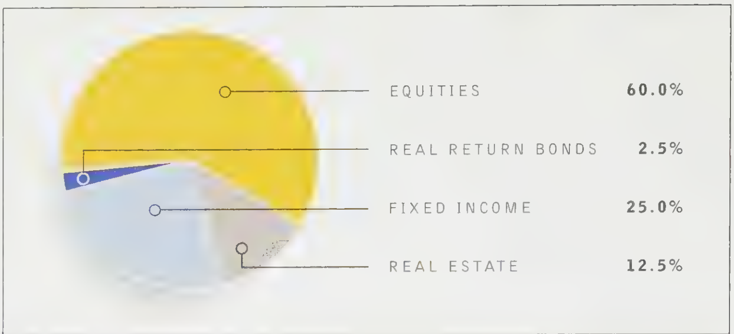
Investment philosophy

The Plan's financial strength and 20-to 30-year investment horizon enable us to follow a prudent investment policy that emphasizes stability of returns by spreading risk over a variety of asset classes. If the Plan had more liabilities than assets, we would have to close the gap by earning higher returns over the long term while tolerating greater volatility in the short term. The Board would also have to consider raising contribution rates.

A pension fund's investment returns are determined by its asset mix policy and the behaviour of the markets in which those assets are invested. The returns of one pension fund compared with another primarily reflect different asset mix decisions that are based on the size and maturity of each plan's liabilities as well as the level of payroll contributions by members and employers.

Asset mix

Setting the asset mix policy involves choosing investments that reflect the Plan's liabilities (the money needed to pay future pensions). A comprehensive review of the asset mix policy normally occurs every four years. The most recent review, completed in September 2000, largely maintained the existing policy but added real-return bonds.



Asset Mix Policy

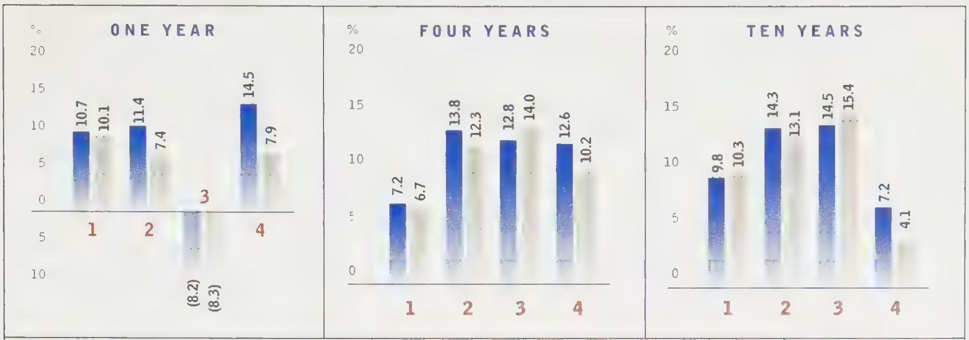
OMERS has four broad asset classes, each with a different risk/reward profile and timeframe for optimum performance:

- Equities, or stocks, are highly volatile in the short term, but are expected to produce better returns than bonds and real estate over the long term. For publicly traded stocks the ideal investment timeframe is 3 to 5 years, while for private equity it can extend to 10 years.
- Bonds are generally less risky and volatile than stocks, and provide steady income as well as the return of the original capital at maturity. The investment timeframe is most often 5 to 10 years.
- Real estate has historically been an effective hedge against inflation, offsetting the indexed nature of pension benefits, and tends to deliver superior returns over a horizon of at least 10 years and usually much longer.
- Real-return bonds are specialized products that earn inflation-adjusted returns and are the closest match with indexed pension payments. The investment timeframe is over twenty years.

Asset allocation

Within the asset mix policy we are shifting a large amount of capital to non-Canadian investments by reducing our Canadian equity holdings. Our goal is to diversify risk to international companies that we expect will produce superior returns over the long term.

At the end of 2000, approximately 27.6% of total assets at market value were exposed to markets outside Canada through direct investments and derivative contracts. On a cost basis, foreign investments at 19.6% of total assets were within the federal government's foreign property limit of 25% for 2000.



Rates of Return vs. Benchmark in each asset class
1 Canadian Fixed Income 2 Canadian Equities 3 Foreign Equities 4 Real Estate

Rate of return
Benchmark

Equities

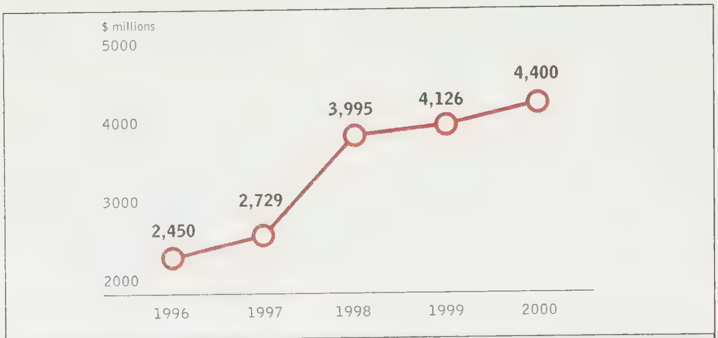
Our equity investing recognizes that when we buy stocks, we acquire an ownership position in companies. At the end of 2000, we had $18.5 billion invested in stocks, of which 61.0% was in Canadian public and private companies. Our revised equity strategy is to think globally in all portfolios, recognizing that often the most successful companies in Canada either have multi-national operations or are companies incorporated elsewhere.

We follow three strategies for equity investing, with the emphasis on active rather than passive management.

Actively managed stocks

Our actively managed stock portfolios held shares of 258 companies with a total value of $13.8 billion at the end of 2000. We invest over several market cycles and principally buy corporate shares to hold rather than trade. Our stock portfolios are about 60% managed by internal staff and 40% by external managers with expertise in particular market sectors. Though we invest in growth companies where large capital gains can be achieved over the long term, albeit at higher risk, we are generally a value investor. This management style emphasizes the earning power or asset value of a company.

Outside Canada, we have a $5.0 billion portfolio managed by several external managers and consisting of approximately 1,100 stocks selected from markets in the United States and internationally. The portfolio decreased by $0.4 billion during the year. Although we select individual companies based on value, portfolio risk is reduced by investing in different economies around the world. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe, the Far East and emerging markets.



Real Estate Five-year Growth

Indexed stock funds

While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost efficient way to invest in equities.

In Canada, we invest in the shares of the companies that make up the TSE 300 Index, such as major banks, insurance firms, technology companies, consumer goods producers and retailers, and resource companies. In 2000, we had $1.9 billion in Canadian stock indices.

Outside Canada, our index investing focuses on the Standard & Poor's 500 Index of companies in the United States and we had $1.7 billion invested in the index in 2000.

Merchant banking

Investing in private companies diversifies our assets beyond the sometimes-excessive valuations and volatility of public markets. There are numerous private firms in Canada and around the world that can benefit from our financial and strategic support. They offer good capital growth potential over several years, and we eventually realize gains through a public share offering or the sale of our interest to management or other private investors. We are now a major merchant bank funding source in Canada and at the end of 2000 had $1.1 billion in Canadian and foreign private equity and $0.3 billion in private debt.

Fixed-income investments

We manage a $13.5 billion fixed income portfolio that includes Canadian government and corporate bonds, mortgages, and cash and short-term instruments. In 2000, we sold our foreign bond portfolio to provide a better match for our liabilities by concentrating on Canadian opportunities. Given that the federal and provincial governments are reducing their borrowings, we have been developing a stronger corporate bond portfolio that offers higher returns, with $2.7 billion invested at the end of 2000.

Derivatives

Derivatives enable us to maximize exposure to both domestic and foreign markets, provide greater liquidity than owning the underlying assets, are a cost effective form of investing, and enhance overall returns. They also facilitate efficient risk management among different types of assets and global economies. Our derivative contracts are discussed in Note 3 to the financial statements.

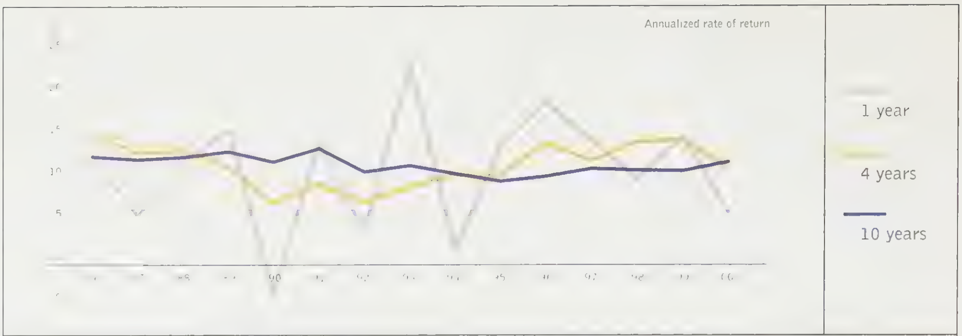
The notional value of derivative contracts in 2000 was $7.8 billion, compared with $4.4 billion a year earlier. Net credit risk exposure at year end was $44 million, or 0.1% of the fund.

We anticipate further growth and opportunities in the derivatives market and can gain market exposure of up to 30% of total assets through these products under our current policy. Extensive monitoring and control processes are in place to manage risk.

Real Estate

Real estate is one of the best investment assets available to match our liabilities. It generates superior returns over several decades, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds. The cash flow from real estate rental income was sufficient in 2000 to pay 28.1% of all pension benefits.

We have built one of the largest real estate investment portfolios in Canada, valued at $4.4 billion. The portfolio consists primarily of direct property ownership. The 72 directly owned properties are principally "best in class" office buildings and large shopping centres in major urban markets across Canada. OMERS has further diversified its holdings in 2000 by acquiring several multi-family apartment buildings. Approximately 61.8% of the portfolio is in the form of joint ventures with other investors, including pension funds.



Comparison of 1 year, 4-year and 10-year Returns Demonstrates OMERS Long-term Stability

Our total real estate exposure includes equity in Canadian and U.S. property companies, as well as real estate investment trusts (REITs). Consistent with our commitment to global investing, we are diversifying internationally through real estate investment funds.

Real-return bonds

In 2000 we supplemented our investments in real estate with real-return bonds that are also an ideal match with indexed liabilities. At year end, we had invested $773 million in these securities and plan to expand this portfolio to as much as 2.5% of the fund's total assets.

Corporate governance

We own shares in more than 2,500 companies, of which nearly 450 are in Canada. Research shows that companies with good corporate governance tend to generate better shareholder returns. Corporate governance focuses management on creating long-term shareholder value as part of its accountability to the owners.

We publish Proxy Voting Guidelines so that corporate managers and other shareholders understand how we are likely to vote on specific issues that affect shareholder value. We are more frequently active in voting on management proposals, in particular opposing excessive stock options and the re-pricing of options when share values decline. With all the recent mergers and acquisitions, OMERS has taken an increasingly active role in opposing takeover protection measures that might prevent the realization of full shareholder value. OMERS will continue to be active, taking a position on these and other issues.

FINANCIAL PERFORMANCE

Change in net assets

Net assets increased by $945 million in 2000, totaling $35.9 billion at year-end.

Driving the growth in net assets was $2.0 billion in net investment income, compared with $4.6 billion in 1999. This growth can be fully attributed to the Plan's investment strategy. No basic contributions were received from members and employers for the second consecutive year because the contribution holiday continued throughout 2000.

Reducing net assets were approximately $1.0 billion in pension benefit payments. A similar amount was paid out in 1999. Member pensions actually increased by $99 million in 2000, while both commuted value payments and contribution refunds declined (see note 9 to the financial statements).

Also deducted from net assets was $73 million in administrative costs, compared with $70 million a year earlier (administrative expenses are tabulated in note 10 to the financial statements).

Fund performance

Our long-term goal is to exceed the actuarial funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index. Our timeframe for doing this extends over several decades and involves selecting investment assets to pay retirement income to all current Plan members during their lifetime.

Over the past 26 years, since OMERS was empowered to pursue an active investment policy in 1974, the Fund has achieved a compounded annual rate of return of 11.3%. During the past 10 years, performance was even better at 12.2%. These long-term returns are well above the level the Plan requires to remain fully funded.

Returns are also measured in the short term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the investment policy and asset mix to better balance fluctuations over the long term.

In 2000, our annualized rate of return for four years (a standard in the pension fund industry) was 11.5%. This was substantially above the four-year funding requirement of 6.1%.

The one-year return for 2000 was 6.2%, compared with 7.5% for the funding requirement (that is, 4.25% plus 3.2% inflation). The annual return was the lowest since 1994 and reflected generally negative returns by stock markets around the world, though Canadian stocks and real estate, where we invest approximately 40% of total assets, produced positive returns.

Investments at market value totaled $36.5 billion at the end of 2000, or $1.2 billion more than the prior year end. Approximately 60% of invested assets, including derivatives, were equities. Real estate, bonds, mortgages and short-term deposits comprise the remaining 40%.

Asset class performance vs. benchmarks

A short-term goal is to add value above the returns that the markets in which we invest will produce on their own. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. To the extent we exceed the benchmark, we add value to the portfolio. These benchmarks are aggregated and weighted to conform to

our asset mix policy to provide a benchmark for the total fund. In 2000, our active-investing efforts added $752 million in value above the asset mix policy.

Following negative returns in 1999, our $13.5 billion Canadian fixed-income portfolios produced a 10.7% return in 2000, outperforming the 10.1% benchmark (a custom blend of the Scotia Capital Bond Universe Index plus the SCI 30 Day T-Bill Index). Contributing to the improved performance were higher returns from our large mortgage portfolio and from private debt. During the year we liquidated our foreign bond portfolio.

In the equity category, our Canadian stock portfolios performed well, earning 12.1% in 2000, compared with 7.5% for their benchmark (a blend of the TSE 300 Index and the Nesbitt Burns Small Cap Index). In recent years, Nortel has dominated the TSE 300 Index and drove its exceptional performance in 1999. In 2000, Nortel declined sharply in value, reducing the TSE 300 return to 7.4%. However, the effect of our exposure to Nortel was muted by the large size of our actively managed stock portfolio at $8.8 billion, compared with $1.9 billion invested in a fund that mirrors the TSE 300 Index.

Our $1.1 billion merchant banking equity operations earned 7.4% compared with 4.9% for the benchmark (an adjusted TSE 300 Index return). Our portfolio has a high exposure to technology companies that we believe will perform well over the long term. Over the past five years, merchant banking has earned an average annual rate of return of 18.9%.

Foreign equities earned a negative 9.3% return, falling short of the negative 8.3% for the benchmark (based on the Russell 3000 Index in the United States and the Goldman Sachs Global Index, excluding Canada and the U.S.) as stock markets around the world declined in 2000. Our portfolios in the Pacific Rim and Emerging Markets under performed against their benchmarks. Another contributing factor was a decline in currency values.

Our total real estate holdings had a strong year with a 14.5% return, almost double the 7.9% performance of the benchmark (85% of the five-year smoothed CPI + 4.75%, and 15% of the TSE 300 real estate sub-index). The exceptional performance reflected the continued strong growth in cash flow from the high-quality properties in our large real estate portfolio.

Growth in liabilities

The actuarial present value of accrued pension liabilities totaled an estimated $27.1 billion at the end of 2000, a 6.3% increase over the previous year.

The Plan's financial obligations to active members, pensioners and former members have grown substantially in recent years, a trend that will continue as the "baby boom" generation enters retirement. Although wage growth has been relatively flat recently, members have been retiring earlier than expected by taking advantage of the plan's early retirement enhancements.

Cash flow

We received $1.5 billion in cash flow during 2000 from interest, dividend and rental property income plus contribution transfers by members joining OMERS from other plans and supplementary payments by employers. In addition, $2.0 billion was realized from the sale of investments. This cash flow more than offset the $1.0 billion paid out in benefits. The Board reviews the effect of the contribution holiday on cash flow annually. Investment income is expected to continue to exceed benefit payments during the remainder of the contribution holiday.

THE PLAN'S FINANCIAL POSITION

The cost of all current and future pensions is estimated on a regular basis to ensure the Plan has enough money to keep the pension promise.

An independent actuary estimates the value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. These estimates are prepared every year and extrapolated over the next 20 years. They assist OMERS in making decisions about the use of surplus funds.

Conservative long-term assumptions are made about three key factors – investment returns, which affect the value of assets, and inflation and salary increases, which affect the cost of future benefits.

Valuing the assets

The market, however, determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more objective picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the Plan's demographics – the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active members, former members who have entitlements in the Plan, and pensioners, surviving spouses and children who receive benefits. In addition, mortality, disability and termination of employment data are factored in. OMERS collects this member data annually from more than 1,000 employers.

Calculating the surplus

The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements.

Statement of Changes in the Surplus

(Millions)	*2000	1999
Surplus, beginning of year	**$ 5,469**	$ 5,921
Increase in net assets available for benefits	**945**	3,550
Increase/(Decrease) in actuarial adjustment to net assets available for benefits	**2,044**	(822)
Increase in actuarial value of net assets available for benefits	**2,989**	2,728
Less: net increase in accrued pension benefits	**1,606**	3,180
Surplus, end of year	**$ 6,852**	$ 5,469

* Projection based on 1999 valuation and changes in assets and benefits during 2000.

BOARD MEMBERS AND SENIOR OFFICERS

D'ck McIntosh, Roger Richard, Frederick Biro, Marianne Love

David Carrington, David Kingston, Nancy Bardecki, Bill Rayburn

Walter Borthwick, Susan O'Gorman, Rick Miller, Peter Leiss

BOARD MEMBERS

Employer Representatives

Walter Borthwick
Town of Wasaga Beach

Bill Rayburn, County of Middlesex

Marianne Love, City of Brampton

Frederick Biro
Peel Police Services Board

Roger Richard
Limestone District School Board

1 vacant position

Claude Guillemette
East Ferris Township
(until September 2000)

Employee Representatives

Peter Leiss, Chair
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman, Past Chair
Ontario Nursing Association

Rick Miller
Ontario Professional Firefighters Association

Dick McIntosh, Retired Member

David Kingston
York Regional Police Association

Paul Bailey
Police Association of Ontario
(until September 2000)

Government of Ontario Representative

Nancy Bardecki

SENIOR OFFICERS

Dale Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

MANDATE AND GOVERNANCE

OMERS PROVIDES PENSION SERVICES TO 295,000 MEMBERS AND MORE THAN 1,000 EMPLOYERS WHO HAVE THE RIGHT TO KNOW HOW THEIR PLAN IS MANAGED AND GOVERNED.

Board Mandate

OMERS mandate is set out in the *OMERS Act* and *Regulation.* Board responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix allocation
- Approving contribution rates
- Appointing CEO and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the Provincial Government for a maximum of two three-year terms. OMERS is governed by a thirteen-member board composed of:

- Six employee representatives
- Six employer representatives
- One provincial government representative

Board Accountability

Twelve of the thirteen current members of the Board are Plan members – a constant reminder that policies and decisions must be in the best interests of stakeholders.

There is a mandatory orientation and ongoing continuing education program for Board members including seminars and conferences.

There are meetings 10 times each year plus two annual strategy sessions. The Board attendance in 2000 was close to 100%. The Board holds two regional meetings a year with Plan members.

Board Independence

The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually.

Day–to–day management of OMERS is delegated to the CEO. The Board retains responsibility for strategic management decisions.

Board Governance

The Board Governance Sub–Committee was established in 1998. It consists of the chair, first vice–chair, immediate past chair and vice chairs of the pension, management and investment committees. The Committee reviews the mandate of the Board and committees, evaluates the orientation and education programs, compostition, qualifications, compensation and nomination process for Board members. It conducts a bi–annual Board evaluation with the assistance of outside consultants.

Board Committees

The Board has four standing committees (listed below) and four sub–committees: governance, audit, compensation and appeals.

Executive Committee

Responsible for Board affairs, government relations, organizational changes. Serves as compensation subcommittee to handle executive compensation and performance.

Investment Committee

Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee

Oversees pension administration policy, appoints independent actuary, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee

Responsible for human resources, annual budget, strategic plan and major purchases.

ACTUARIAL COST CERTIFICATE

AS AT DECEMBER 31, 2000 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 1999 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 1999 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $25,462.424 million in respect of benefits accrued for service to December 31, 1999. The Actuarial Assets at that date were $30,963.744 million indicating a going concern Actuarial Surplus of $5,501.320 million, of which $1,273.088 million has been allocated to a Funding Stabilization Reserve by the Board. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 1999 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $32.851 million, leaving an overall Actuarial Surplus of $5,468.469 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 1999. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2000. Further, we have calculated the Actuarial Assets at December 31, 2000. In our opinion, the assets of the Fund at December 31, 2000 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on both a going concern basis and a wind up basis.

The actuarial valuation of OMERS as at December 31, 1999 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted

WATSON WYATT & COMPANY

Martin J.K. Brown, F.I.A., Fellow, Canadian Institute of Actuaries

February 23, 2001

RESPONSIBILITIES OF MANAGEMENT, THE ACTUARY AND EXTERNAL AUDITORS

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Sub-committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Sub-committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Sub-committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality and turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets of the Fund and the changes in its net assets, for the financial year in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Sub-committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

AUDITORS' REPORT

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets of the Ontario Municipal Employees Retirement Fund as at December 31, 2000 and the consolidated statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2000 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 23, 2001

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,		2000		1999
ASSETS				
Investments (Note 2)	$	**36,469**	$	35,278
Accrued income		**145**		133
Amounts due from pending trades		**433**		360
Other assets (Note 4)		**16**		23
Total Assets		**37,063**		35,794
LIABILITIES				
Due to administered pension funds (Note 5)		**528**		502
Amounts payable from pending trades		**494**		280
Other pension liabilities		**166**		82
Total Liabilities		**1,188**		864
NET ASSETS (Note 6)	$	**35,875**	$	34,930

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,		2000		1999
INCREASES IN NET ASSETS				
Net investment income (Note 7)	$	**2,033**	$	4,598
Contributions (Note 8)		**30**		27
Total Increase		**2,063**		4,625
DECREASES IN NET ASSETS				
Benefits (Note 9)		**1,045**		1,005
Administrative expenditures (Note 10)		**73**		70
Total Decrease		**1,118**		1,075
INCREASE IN NET ASSETS		**945**		3,550
Net assets at beginning of year		**34,930**		31,380
NET ASSETS AT END OF YEAR	$	**35,875**	$	34,930

The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2000

Description of the Plan

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *OMERS Act and Regulation.* The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the *Ontario Municipal Employees Retirement System Act* (OMERS Act). The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities, and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

(a) Funding

The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation* and the PBA.

(b) Pensions

The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

(c) Death Benefits

Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

(d) Withdrawals from the Plan

Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

(e) Escalation of Pensions

Pension benefits are protected from inflation through an annual adjustment equal to 100% of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

(f) Income taxes

OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received.

(g) Retirement Compensation Arrangement

The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada).*

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The RCA is funded on a pay as you go basis. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, mortgage, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of

investments at the beginning and end of each year is reflected in net investment income in the statement of changes in net assets as unrealized appreciation/depreciation of investments.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. Jones Lang LaSalle Real Estate Services Inc. and Colliers Macaulay Nicolls Inc. are the firms of independent appraisers engaged for the 2000 valuation process.
The fair value of any real estate which has been recently acquired is based on the purchase price.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.

v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values where available, or discounted cash flows using current market yields, where quoted market values are not available.

Investment income includes interest, dividends and operating income from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Non-Investment Assets and Liabilities

The fair value of contributions receivable, accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades and other pension liabilities approximate their carrying amounts.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in unrealized appreciation/depreciation of investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

Note 2. Investments

	2000		1999	
(Millions)	**Fair Value**	**Cost**	Fair Value	Cost
Interest Bearing Investments				
Cash and short-term deposits	**$ 2,907**	**$ 2,907**	$ 2,462	$ 2,462
Canadian bonds and debentures	**8,906**	**8,722**	6,071	6,179
Non-Canadian bonds	–	–	1,573	1,689
Private debt	**299**	**299**	216	224
Mortgages	**1,413**	**1,395**	1,244	1,259
	$ 13,525	**$ 13,323**	$ 11,566	$ 11,813
Non-Interest Bearing Investments				
Canadian equities	**10,732**	**6,900**	11,603	7,304
Non-Canadian equities	**6,684**	**5,435**	7,134	4,678
Real estate	**4,400**	**4,257**	4,126	4,115
Resource properties	**141**	**104**	111	98
Canadian private equities	**444**	**405**	509	297
Non-Canadian private equities	**543**	**434**	229	183
	$ 22,944	**$ 17,535**	$ 23,712	$ 16,675
TOTAL INVESTMENTS	**$ 36,469**	**$ 30,858**	$ 35,278	$ 28,488

At December 31, 2000, the Fund held the following investments, each having a fair value or cost exceeding 1% of the fair value or cost of total investments:

	2000 Aggregate			1999 Aggregate		
($ Millions)	**Number of Investments**	**Fair Value**	**Cost**	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	**3**	**$ 1,177**	**$ 1,164**	6	$ 2,134	$ 2,206
Canadian equities	**3**	**2,659**	**1,182**	2	2,612	531
Real estate properties	**3**	**1,148**	**1,000**	3	1,016	915
	9	**$ 4,984**	**$ 3,346**	11	$ 5,762	$ 3,652

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest bearing securities issued by the Goverment of Canada and equity securities issued by BCE Inc., Nortel Networks Corporation and the Royal Bank of Canada. Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Royal Bank Plaza, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $2,721 million at December 31, 2000 (1999 – $2,658 million). OMERS share of the net income earned by these entities was $166 million for the year ended December 31, 2000 (1999 – $151 million) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2000, securities with an estimated fair value of $2,845 million (1999 – $2,579 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,987 million (1999 – $2,708 million).

Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (see note 3).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Fund's holdings by geographical location of the issuer and by currency as at December 31 are as follows:

	Geographical Location		Currency	
(Millions - Canadian dollar equivalent)	**2000**	1999	**2000**	1999
Canada	**$ 26,410**	$ 25,047	**$ 26,434**	$ 25,600
United States of America	**5,046**	4,677	**5,180**	4,731
Euro zone[1]	**1,561**	1,962	**1,523**	1,900
Japan	**1,327**	1,419	**1,328**	1,401
United Kingdom	**967**	1,004	**952**	695
Other Western Europe	**660**	596	**660**	493
Other Pacific	**274**	262	**271**	276
Emerging Markets	**224**	311	**121**	182
	$ 36,469	$ 35,278	**$ 36,469**	$ 35,278

Canadian assets backing derivatives have been allocated to the currency of the underlying asset or index from which the derivative contract derives its value.

[1] Euro zone includes the eleven member countries using the Euro currency.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on

duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

	2000					1999	
	Term to Maturity						
(Millions)	**Within 1 Year ($)**	**1 to 5 Years ($)**	**Over 5 years ($)**	**Total ($)**	**Average Effective Yield**	Total ($)	Average Effective Yield
Cash and short-term deposits	**2,907**	**–**	**–**	**2,907**	**5.83%**	2,462	5.05%
Canadian bonds and debentures	**682**	**3,412**	**4,812**	**8,906**	**5.59%**	6,071	6.38%
Non-Canadian bonds	**–**	**–**	**–**	**–**	**–**	1,573	5.48%
Private debt	**7**	**40**	**252**	**299**	**8.16%**	216	7.98%
Mortgages	**177**	**506**	**730**	**1,413**	**7.34%**	1,244	8.12%
TOTAL	**3,773**	**3,958**	**5,794**	**13,525**	**5.88%**	11,566	6.19%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 30.5 per cent (1999 – 20.2 per cent) of the Canadian bonds and debentures. In 1999, non-Canadian bonds were composed of liquid and marketable government and supra national debt issues and consisted primarily of the 12 member countries of the Organization for Economic Cooperation and Development.

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments which are designed to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

Note 3. Derivative Financial Instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolio. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps,** which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures,** which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.
- **Options,** which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

(Millions)	2000 Notional Value	2000 Fair Value Gross Assets	2000 Fair Value Gross Liabilities	2000 Credit Risk (replacement cost)	1999 Notional Value	1999 Fair Value Gross Assets	1999 Fair Value Gross Liabilities
Interest rate swap contracts	**$ 927**	**$ 8**	**$ (15)**	**$ 8**	$ 569	$ 4	$ –
Bond index swap contracts	**215**	**1**	**–**	**1**	56	–	–
Equity index swap contracts	**760**	**–**	**(51)**	**–**	887	96	(1)
Equity swap contracts	**67**	**–**	**(7)**	**–**	75	17	–
Equity index futures contracts	**2,860**	**5**	**(24)**	**5**	1,675	7	(3)
Bond options – written	**70**	**–**	**(3)**	**–**	–	–	–
Bond options – purchased	**335**	**5**	**–**	**5**	–	–	–
Foreign exchange forward contracts	**2,581**	**25**	**(33)**	**25**	1,140	3	(13)
Total	**$ 7,815**	**$ 44**	**$ (133)**	**$ 44**	$ 4,402	$ 127	$ (17)

All derivative instruments mature within one year except interest rate swap contracts with a notional value of $410 million that mature between 2001 and 2003 and $34 million that mature between 2005 and 2009 (1999 – $417 million that mature between 2000 and 2002).

Note 4. Other Assets

(Millions)	2000	1999
Long term receivables[1]	**$ 8**	$ 15
Other	**8**	8
	$ 16	$ 23

[1] Under the terms of the *OMERS Act and Regulation* certain participating employers have entered into agreements with the Board for the provision of supplementary benefits for past service. Each employer is responsible, individually, for the funding of such benefits based on separate actuarial valuations. Amounts due from employers in respect of these agreements are recorded as long-term receivables to be paid, with interest, over a period not to exceed fifteen years.

Note 5. Due to Administered Pension Funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Note 6. Net Assets

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	2000	1999
Assumed rate of inflation	**3.0%**	3.0%
Assumed rate of pensionable earnings increases	**4.5%**	4.5%
Assumed actuarial rate of return on plan assets	**7.25%**	7.0%

Coincident with the change in assumed actuarial rate of return, the mortality assumption was changed to incorporate assumed annual improvement in mortality rates. The net change in liabilities due to the two assumption changes was not material.

The extrapolation of the actuarial valuation to December 31, 2000, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2000. The 1999 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 1999.

(Millions)	**2000**	1999
Fair value of net assets at end of year*	**$ 35,867**	$ 34,921
Adjustment to the fair value for actuarial purposes	**(1,913)**	(3,957)
Actuarial value of net assets at end of year	**33,954**	30,964
Actuarial present value of accrued pension benefits at beginning of year	**25,462**	22,283
Interest accrued on benefits	**1,845**	1,893
Benefits accrued	**1,030**	966
Benefits paid	**(1,045)**	(1,005)
Plan amendments	**–**	3,498
Changes to actuarial assumptions	**–**	(1,848)
Experience gains	**(225)**	(325)
Actuarial present value of accrued pension benefits at end of year	**27,067**	25,462
Full earnings pension assets	**8**	9
Full earnings pension liability	**43**	42
Net liability of full earnings pension	**35**	33
	27,102	25,495
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits	**$ 6,852**	$ 5,469

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the actuarial present value of accrued pension benefits has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 2000 is $1,353 million (1999 – $1,273 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act.*

As part of the ongoing surplus management efforts of the OMERS Board, a number of temporary contribution and benefit measures have been put in place, as summarized in the following table:

Provision	Permanent	Temporary	Effective Dates
Early Retirement Eligibility	10 years prior to Normal Retirement Age (NRA)	15 years prior to NRA	January 1, 1999 to December 31, 2001
Unreduced Early Retirement Factors	90 (NRA 65) or 85 (NRA 60)	80 (NRA 65) or 75 (NRA 60)	January 1, 1999 to December 31, 2001
		85 (NRA 65) or 80 (NRA 60)	January 1, 2002 to December 31, 2002
Early Retirement Reductions (if not eligible for unreduced pension)	5% per year	2.5% per year	January 1, 1998 to December 31, 2002
Contributions	6.0% of earnings to YMPE* plus 7.5% of additional earnings (NRA 65) or 7.0% of earnings up to YMPE* plus 8.5% of additional earnings (NRA 60)	0% of earnings	August 1, 1998 to December 31, 2002 (to be reviewed annually)

* YMPE – Yearly Maximum Pensionable Earnings

New proposals for further benefit changes have been made by the OMERS Board, including an increase in the lifetime pension benefit and an extension of the eligibility period for temporary improvements in early retirement benefits. If these proposals are adopted as amendments to the OMERS Regulation, the total actuarial present value of accrued pension benefits would increase by approximately $1.1 billion as at December 31, 2000.

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act of Ontario,* a wind-up valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be $31,960 million as at December 31, 2000 (1999 – $28,797 million). Under the solvency

valuation, net assets are based on their fair value. As at December 31, 2000, the fair value of net assets excluding the full earnings assets was $35,867 million (1999 – $34,921 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

Note 7. Net Investment Income

a) Net Investment Income Before Allocating the Effect of Derivative Contracts

Investment income before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $34 million (1999 – $28 million) are netted against the particular portfolio where the costs were incurred. Income (loss) from derivative financial instruments of $(371) million (1999 – $300 million) is included in the realized gains/(losses) on disposal and the unrealized appreciation/depreciation in the fair value of investments.

(Millions)	**2000**	1999
INCOME		
Interest Bearing Investments		
Short-term deposits	**$ 153**	$ 128
Canadian bonds & debentures	**518**	363
Non-Canadian bonds	**28**	81
Private debt	**28**	15
Mortgages	**101**	107
	828	694
Equity Investments		
Canadian equities	**151**	196
Non-Canadian equities	**98**	88
Resource properties	**20**	6
Canadian private equities	**49**	(6)
Non-Canadian private equities	**14**	2
	332	286
Real Estate Investments	**294**	276
NET REALIZED GAINS on disposal of investments	**2,004**	2,002
NET UNREALIZED APPRECIATION/(DEPRECIATION) in the fair value of investments	**(1,378)**	1,425
	2,080	4,683
Less income credited to:		
Administered pension funds	**31**	69
Provision for supplementary retirement benefits	**16**	16
	$ 2,033	$ 4,598

b) Investment Income by Major Asset Class

Investment income by major asset class, after allocating the realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2000	1999
Interest Bearing Investments	$ 1,121	$ (153)
Equity Investments		
Canadian	1,419	2,901
Non-Canadian	(880)	1,646
Real estate Investments	420	289
	$ 2,080	$ 4,683

Note 8. Contributions

(Millions)	2000	1999
Employers, long-term receivables and interest thereon (note 4)	$ 4	$ 5
Transfers from other pension plans	14	8
Other contributions	12	14
	$ 30	$ 27

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday is reviewed annually and an extension to December 31, 2002 has been approved. These initiatives were introduced as part of the surplus management measures discussed in note 6.

Note 9. Benefits

(Millions)	2000	1999
Members' pensions	$ 916	$ 817
Commuted value payments	87	121
Members' contributions plus interest refunded	34	57
Transfers to other pension plans	8	10
	$ 1,045	$ 1,005

Note 10. Administrative Expenditures

a) Operating Expenses

(Millions)	2000	1999
Personnel services	$ 36	$ 28
Other purchased services	15	8
Premises and equipment	10	9
Systems development purchased services	6	20
Professional services[1]	3	3
Transport and communication	3	2
	$ 73	$ 70

[1] Professional services includes actuarial costs of $ 0.5 million (1999 – $0.4 million), audit costs of $ 0.4 million (1999 – $0.3 million) and legal costs of $ 0.5 million (1999 – $0.4 million).

b) Executive Compensation

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 1998, 1999 and 2000 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus[1]	Other Compensation[2]	Taxable Benefits
Dale E. Richmond	2000	$ 310,473	$ –	$ 23,892	$ 22,048
President and C.E.O.	1999	304,431	–	9,955	20,505
	1998	298,899	54,886[3]	–	20,862
Michael Beswick	2000	$ 164,187	$ 19,982	$ 7,964	$ 9,814
Senior Vice President	1999	155,235	12,834	7,507	9,849
Pensions	1998	150,355	3,000	7,254	8,583
Wayne Gladstone	2000	$ 165,148	$ 18,982	$ 12,836	$ 11,662
Senior Vice President	1999	161,984	15,334	7,808	11,678
Finance and Administration	1998	157,907	7,500	7,693	7,056
Tom Gunn	2000	$ 274,569	$ 92,000	$ 22,840	$ 1,232
Senior Vice President	1999	268,269	65,000	21,283	1,074
Investments	1998	248,582	48,494	12,491	4,572
Gillian Platt[4]	2000	$ 84,964	$ 19,982	$ 13,330	$ 5,980
Senior Vice President	1999	142,404	16,834	1,394	10,037
Corporate Affairs	1998	127,983	10,000	1,500	7,481

[1] Based on prior year's performance.

[2] Includes vacation cash-in, lump sum performance supplements and car allowance.

[3] One-time cash buy back award.

[4] No longer employed by OMERS as of July 15, 2000.

Note 11. Commitments

As part of normal business operations OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2000, these commitments totalled $1.0 billion (1999 – $0.4 billion).

TEN YEAR REVIEW OF FINANCIAL DATA

($ Millions)	**2000**	1999	1998	1997	1996	1995	1994	1993	1992	1991
Investments at market (*)										
Debt	**13,525**	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682	5,678
Equity	**18,544**	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505	7,766
Real Estate	**4,400**	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646	1,348
	36,469	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833	14,792
Assets at market value (*)										
Total Fund	**35,875**	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005	13,091
Liability for:										
Supplementary agreements	**148**	131	116	110	121	120	134	139	136	128
Administered pension plans	**528**	502	437	395	341	345	2,463	2,362	1,841	1,719
	36,551	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982	14,938
Investment Income earned (including realized & unrealized gains)										
Basic Plan	**2,033**	4,598	2,867	3,692	4,074	2,625	310	3,363	475	1,576
Supplementary benefit agreements	**16**	16	13	11	9	11	13	8	2	2
Administered pension plans	**31**	69	39	51	55	381	44	448	106	208
	2,080	4,683	2,919	3,754	4,138	3,017	367	3,819	583	1,786
Contributions received for										
Basic plan	**–**	–	364	869	874	869	870	890	878	765
Basic plan unfunded liabilities	**30**	27	8	21	8	6	9	11	12	18
Supplementary benefit agreements	**–**	–	–	–	–	1	–	1	-	1
	30	27	372	890	882	876	879	902	890	784
Payments to members										
Pensions paid	**916**	817	761	699	661	570	491	414	373	328
Contributions and interest refunded	**121**	178	149	104	89	67	51	43	37	43
Transfers to other plans	**8**	10	10	9	6	6	4	6	13	13
	1,045	1,005	920	812	756	643	546	463	423	384
Expenditures										
Administration	**73**	70	47	40	35	33	33	31	30	24
Investment operating	**34**	28	30	24	25	22	18	16	15	13
	107	98	77	64	60	55	51	47	45	37
Total Fund annual rate of return										
Time weighted return on market value	**6.2%**	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%	14.5%
Benchmark	**4.1%**	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%	20.5%	2.7%	14.2%
Long-term goal	**7.5%**	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%	6.0%	6.3%	8.0%

* Market Value as at December 31.

OMERS

One University Avenue
Suite 1000
Toronto, Ontario M5J 2P1

Telephone 416-369-2400
Toll free 1-800-387-0813
E-mail client@omers.com
www.omers.com

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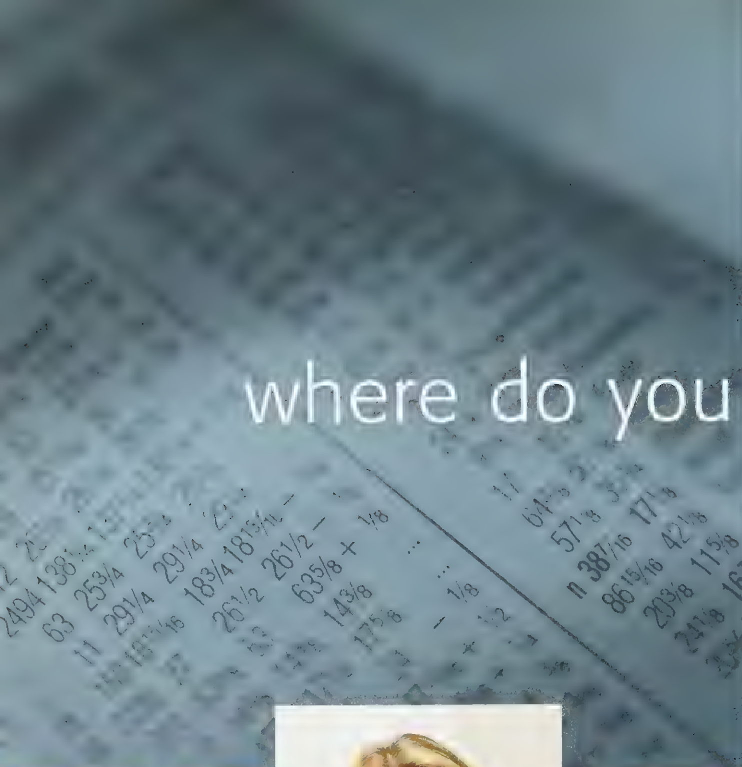
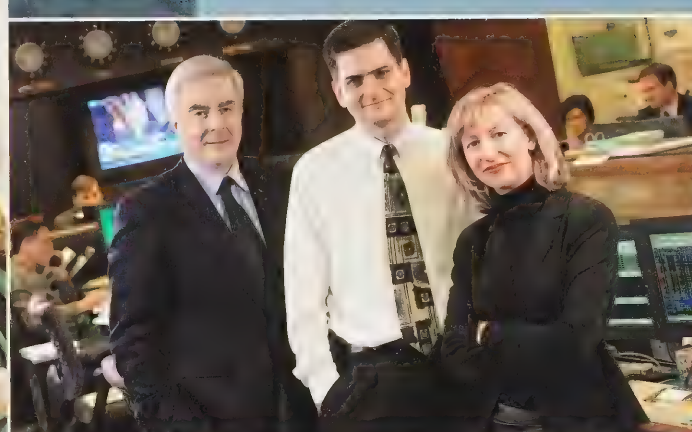
OMERS

Annual Report



where do you look for certainty?



More than 300,000 municipal employees and retirees from across Ontario count on OMERS to provide them with confidence in their financial future.

Our job, through prudent and responsible management, is to ensure their trust and to deliver on their confidence.

OMERS

One University Avenue
Suite 1000
Toronto, Ontario M5J 2P1

Telephone 416-[illegible]
Toll free 1-800-387-0813
E-mail [illegible]@omers.com
www.omers.com

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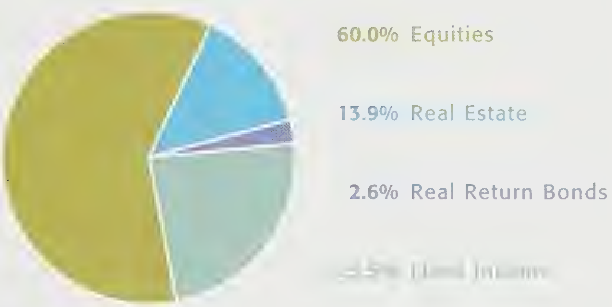
We outperformed our benchmarks

in virtually all asset classes, despite the poor performance of the equity markets. As our pension payroll increases, our investments continue to provide the long-term results needed to pay guaranteed benefits.

ASSET MIX AS AT DECEMBER 31, 2001

Our diversified investment portfolio minimizes risk, generates stable returns and ensures we can keep contribution rates low.

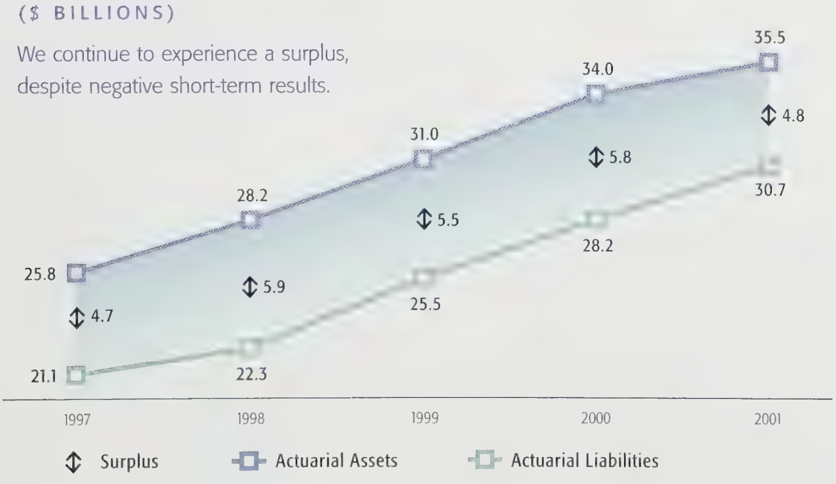


Net of investment liabilities

ACTUARIAL ASSETS AND LIABILITIES AS AT DECEMBER 31

($ BILLIONS)

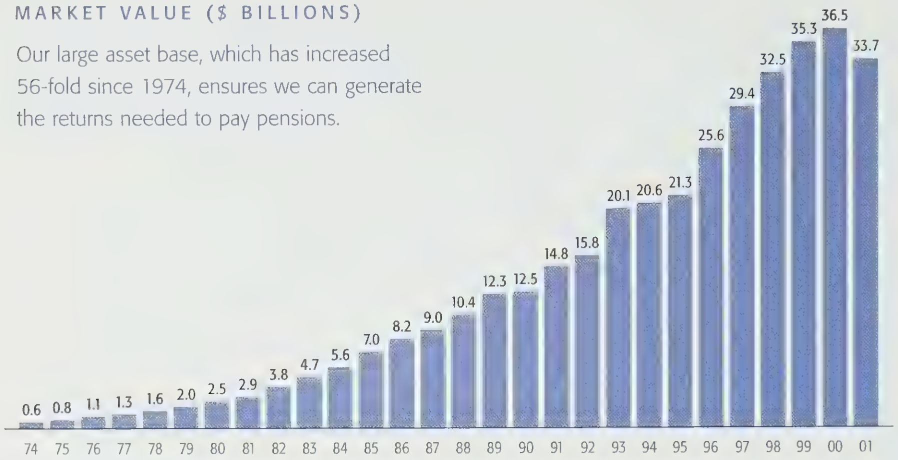
We continue to experience a surplus, despite negative short-term results.



INVESTMENT ASSET GROWTH FROM 1974

MARKET VALUE ($ BILLIONS)

Our large asset base, which has increased 56-fold since 1974, ensures we can generate the returns needed to pay pensions.

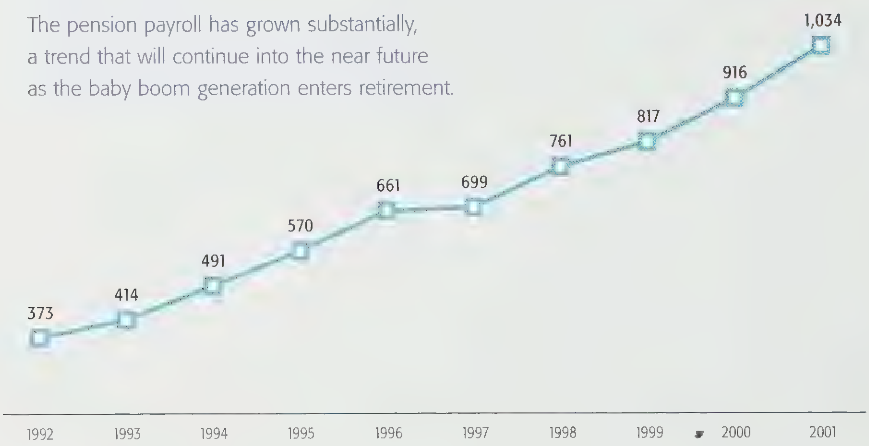


Net of investment liabilities

GROWTH IN PENSION PAYROLL

($ MILLIONS)

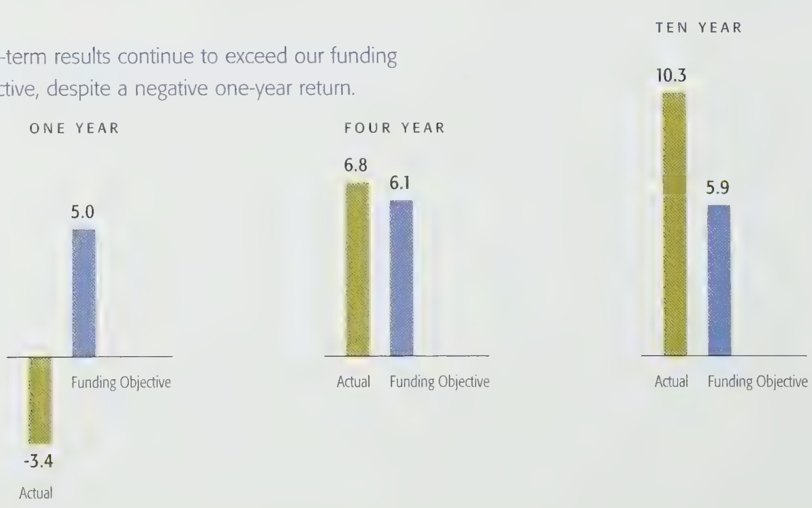
The pension payroll has grown substantially, a trend that will continue into the near future as the baby boom generation enters retirement.



OMERS RATE OF RETURN VS. FUNDING OBJECTIVE

%

Long-term results continue to exceed our funding objective, despite a negative one-year return.



More than 300,000 municipal employees and retirees from across Ontario count on OMERS to provide them with confidence in their financial future.

Our job, through prudent and responsible management, is to ensure their trust and to deliver on their confidence.

Confident

At its heart, OMERS is about the financial security of our members. We know we play an important role in achieving their retirement goals—a responsibility we take seriously.

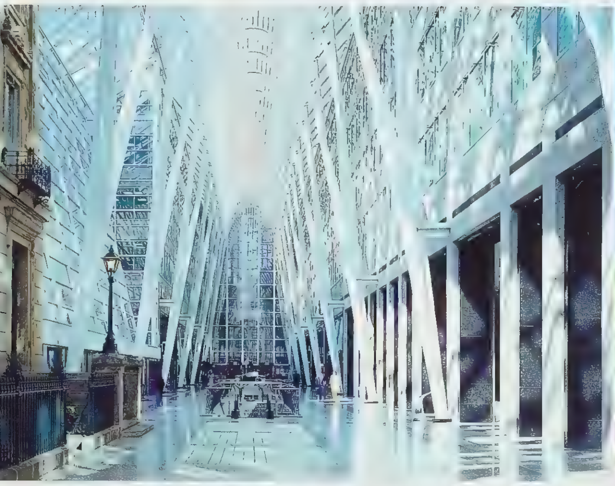
We have a history of first-rate investment results, responsive pension services, good governance practices and accountability to plan participants through a jointly managed Board. But how do we continue to deliver the certainty our members expect?

Contents



Security & Value Our first priority is, and will always be, to preserve the security of the OMERS pension plan. Our members need to know their benefits will be there when they retire. OMERS provides competitive benefits that deliver real value for the level of contributions paid by employers and active members.

Performance & Strength Our long-term investment returns consistently exceed the plan's funding requirement. We tightly manage risk to meet the plan's future financial obligations by paying as much attention to preserving capital as we do to optimizing returns.



Overall excellence □ OMERS continues to make major gains in customer service excellence — faster service, more personal service, and greater access to information. The expansion of user-friendly electronic communications will drive customer satisfaction to new levels. We are among Canada's top 100 employers. This recognition is built on our commitment to attracting and retaining the best talents in plan administration, investment and risk management, and corporate leadership.

The future is our business

OMERS continues to build a confident future based on our 40-year track record of earning reliable, long-term investment returns and providing responsive service to our customers. Our optimism is reflected in the new OMERS logo introduced last year and the accompanying statement "Plan for the Future," which expresses both our commitment to members and the hope that they will prepare for their own retirement as well.

An enviable investment reputation □ We have an enviable reputation as a successful and focused investment organization. We have maintained a large and strong asset base despite delivering improvements like guaranteed inflation protection for retirees and a substantial cash savings to employers and active members during the past three-and-a-half-year contribution holiday. All pension benefits, totalling $3.6 billion during that period, were paid solely out of investment income.

The investment function remains the driving force behind the plan's financial viability. I urge members to read the investment sections of this report. We made important decisions in 2001 to reduce the impact of volatile public equity markets by maintaining strong asset allocations in private equity, real estate and other assets that help produce more stable income. We shifted funds from Canadian

public equities to U.S. and international equities where we believe the returns will be higher and less volatile over the next several years. At the same time, we introduced programs to hedge foreign currency fluctuations as part of our efforts to manage risk and stabilize returns.

These actions are consistent with our philosophy of earning a level of investment returns that meets all current and future pension obligations. We do not believe in taking on more investment risk than makes sense for the plan's financial viability. We are well positioned to work through uncertainties in the world economy and capital markets over the next few years, when investment returns are expected to be more modest than those we enjoyed during the 1990s.

Improved customer relations

□ Forming more productive and responsive relations with employers, active members and retirees has been a priority during the past few years. We are pleased with the progress being made, though much remains to be done.

Plan participants want more information and they want it faster, especially through electronic channels. In the past several years we have invested in new technology and staff training, and in revitalizing our pension administration organization. As discussed in the Pension Services section, this has already produced impressive improvements in service speed and quality.

The real payoffs are yet to come, especially now that our Board has designated customer service as a key corporate priority under our new three-year strategic plan.

Despite recent progress, we are still in the early days of the e-business world. We are moving methodically to design and deliver a richer Internet-based choice of secure and cost-efficient customer services.

The emphasis on customer service excellence, supported by an electronic delivery infrastructure, will ensure that employers and members realize measurable improvements in service.

Excellent value □ Our normal contribution rates are lower than other major public sector pension plans in Ontario — and yet we score very well on the value we deliver. For example, we continue to offer the most attractive unreduced early retirement incentives. Our survivor benefits exceed many plans and few plans offer the same guaranteed inflation-protection. And, of course, we differ from virtually all plans by sharing a portion of the surplus with active and retired members and employers through a contribution holiday and benefit improvements.

We are proud of our track record of maintaining contribution rates while enhancing plan benefits in a responsible manner.

Acknowledgements □ I thank our Board for their leadership during a challenging year and for making the difficult decisions necessary to ensure the plan's ongoing security. I also thank our employees for making solid gains in the quality of our customer service, including building innovative Internet solutions for all our stakeholders. Our investment professionals remained true to the prudent principles that once again enabled OMERS to earn higher returns than those offered by the markets in which we invest.

Dale E. Richmond
PRESIDENT AND CEO

Building confidence with our customers

OMERS has built advanced technology systems and reorganized its pension administration to successfully manage higher business volumes and deliver faster and more complete service. In 2002, we will begin to leverage this new foundation to deliver even greater efficiencies in pursuit of our goal of customer service excellence.

We already have a high level of interaction annually with active and retired members — meeting with more than 10,000 individuals and answering in excess of 100,000 telephone calls and 4,000 e-mails. Our routine contact with almost 1,000 employers includes training sessions with their staff to share new administrative efficiencies.

Our challenge is to respond to service demands that continue to increase as benefits change, more members opt for early retirement, members seek more information about their retirement options, more retirees ask about the security of their pensions, and employers look for easier ways to report. Our solution is to build a customer service organization that will increase employer and member satisfaction in dealing with OMERS.

Progress toward excellence

□ In the past year, we have made good progress on improving customer service. For example, our average turnaround for processing retirement benefits declined from 18 days at the start of the year to seven days by year-end. We also substantially reduced the number of days it takes to process a retirement quote from 32 days in January to one day by year-end.

Another example of performance gains is a pilot program that enables employers to electronically access and view member files on our system and determine the status of any claims they have submitted. This service will be offered to all employers in 2002, supported by a training program for their staff.

Many other smaller gains symbolize our improving customer-centric culture, such as piloting the distribution of newsletters directly to plan members rather than through their employers. We conducted a major review of our phone systems in 2001 to find better ways of handling the rising volume of calls. A dedicated call centre, staffed by highly trained specialists, will be created over the next two years.

MEMBER PROFILE

65%	Active	201,937	
3%	Deferred	9,432	
5%	Inactive	16.1[illegible]	
27%	Retired/ Survivor	84,513	
		312,048	TOTAL

We will track customer satisfaction on calls and transactions beginning in 2002 to ensure that we are being responsive to stakeholder expectations, and continue to build the type of service organization that meets their needs.

Faster member service □ Surveys in 2001 confirmed that both active and retired members agree we provide accurate and useful information and keep them informed regularly — though they would like faster and more personalized service.

Most members are technologically savvy and the web site is emerging as a key source of information sharing. Extensive benefits information is now available on-line. Last year we added an electronic *Pension News* option and a dialogue area where members can share their experiences on retirement planning.

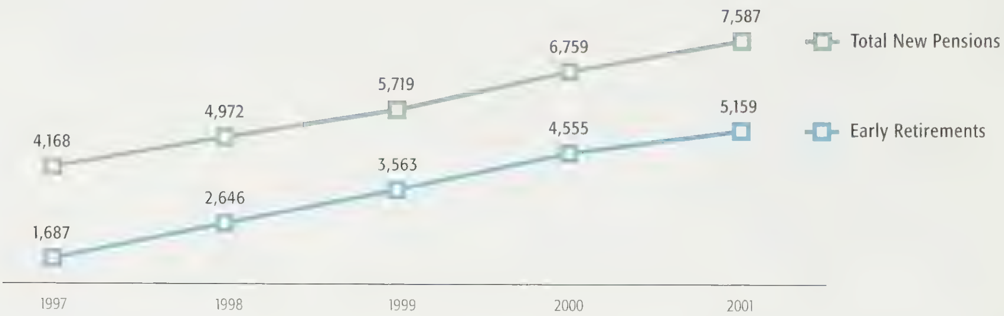
A popular feature is the Estimator, our pension calculator launched in 1999. It now attracts about 11,000 hits per month. This industry-leading pension planner enables members to calculate their retirement options well into the future.

We are examining more interactive e-based relationships with active and retired members, including access to their own file information.

Employer support □ Our research also confirmed that employers appreciate our success in keeping contribution rates low, feel well informed on plan changes, and applaud the accuracy of data. But they too would like faster service as well as greater accessibility to OMERS as their confidential advisor on pension matters.

Our custom-designed Membership Services System has already proven itself by facilitating higher service standards. Each month we post on our web site our record in achieving predetermined member service standards. The Customer Service Monitor is the first public accountability report of its kind in the pension industry and illustrates the competitive attitude that drives our commitment to innovative service.

NUMBER OF RETIREMENTS IN PAST FIVE YEARS



The new levels of service efficiency have considerably reduced the average time it takes to process retirement claims. Similar gains in processing time have been achieved in handling termination claims, pension quotes, disability claims, and buy backs.

In 2002, we will focus on further improving customer service through better information flow and document handling, as well as faster transfer of data.

The pension contract □ The basic pension guaranteed by OMERS is based on 2% of the average of the member's best consecutive five years of earnings multiplied by the number of years of credited service, to a maximum of 35 years. Those with 35 years of credited service no longer contribute. OMERS provides an additional bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP.

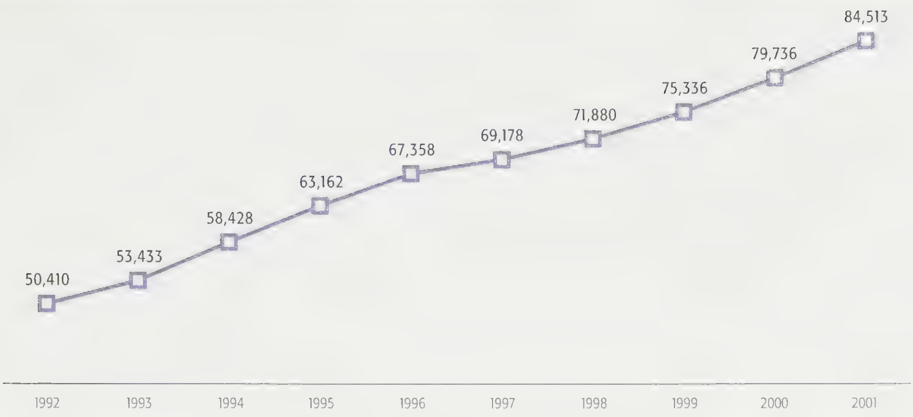
The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS plan. The average salary in 2001 was about $44,700 and the average new pension was $17,912. This reflects the average years of service of new pensioners since the majority of members retire with much less than the maximum years of service.

The pensioner payroll grew by $118 million to more than $1 billion in 2001 as the pensioner population expanded by 6% to 84,513 people, including members receiving disability pensions, surviving spouses and dependent children.

Of the 7,587 new retirements processed in 2001, 68% were early retirements. That compared with 6,759 new pensions in 2000, of which 67% were early retirements.

Status of plan improvements □ The contribution holiday for employers and active members introduced in August 1998 is now scheduled to continue until December 31, 2002, based on the latest actuarial plan valuation.

GROWTH IN NUMBER OF PENSIONERS



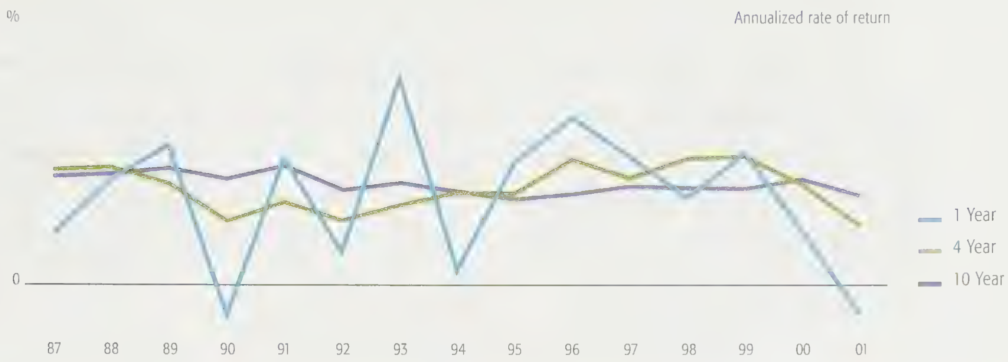
When contributions resume, rates are expected to rise gradually, returning to normal in three years. For members eligible to retire at 65, the normal contribution level is 6.0% of salary up to the Year's Maximum Pensionable Earnings (YMPE), and 7.5% after that. For members eligible to retire at 60 (police officers and fire fighters), it is 7.0% of salary up to the YMPE and 8.5% beyond that. The YMPE for 2002 is $39,100.

In 2001, the Ontario government approved our proposal to more gradually phase out early retirement incentives. Members within 15 years (instead of the normal 10 years) of their retirement age, providing they have the necessary combination of age and years of service, can retire early without penalty up to December 31, 2003. This initiative has helped members and employers during a period of prolonged restructuring in the municipal sector.

Last year, we increased pension payments by reducing the formula used to integrate the OMERS benefits with the Canada Pension Plan when a member turns 65. We also received provincial approval to proceed with a further reduction in the CPP offset. However, because of current economic conditions, as discussed in the Chair's Report, the Board has put the new pension improvement on hold.

A confident investment strategy

COMPARISON OF 1-YEAR, 4-YEAR, AND 10-YEAR RETURNS



The depth of expertise in our investment organization and the soundness of our investment strategy showed their true value in 2001, a year of unprecedented disruption in equity markets around the world.

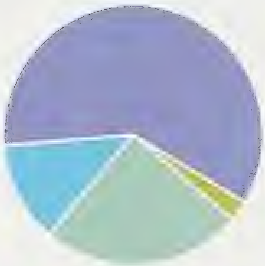
Our priority is to preserve the capital entrusted to us and earn reasonable returns over each market cycle to meet the plan's long-term pension obligations. In 2001, OMERS added measurable value to the plan. Based on our historical record, we are among the most consistent long term performers in the pension industry.

Investment objective □ Every year, an independent actuary calculates the plan's funding requirement to ensure that the value of invested assets exceeds the present value of all pension benefits promised to members. This funding requirement is currently set at 4.25% annually above the rate of inflation. Although Canadian inflation has been low in recent years, it is projected at 3% annually over the long term. Therefore, the nominal investment target for the next several years is 7.25%.

We aim to earn more than the funding requirement so that the plan maintains a surplus of assets over pension costs as a contingency reserve against the risk of short-term declines in investment values. The surplus helps to keep contribution rates stable over the long term.

Investment philosophy □ We follow a prudent, risk-managed investment policy. With a clear focus on earning investment income to pay pensions over the next 20 or 30 years, our investment professionals understand the level of risk we need to assume and manage to achieve the plan's long-term investment objective. This understanding is reflected in our asset mix policy, which spreads risk over a variety of asset classes. The asset mix chosen by OMERS is the one most likely to meet current and future pension obligations without causing an increase in the level of payroll contributions by members and employers.

ASSET MIX POLICY



Changes to asset mix □ In 2001, we made important changes to our asset mix, summarized in the following table. Each asset class has a different risk/reward profile, as well as a different time frame for producing optimum returns.

	2000 (%)	2001 (%)
Canadian equity	35.0	25.0
Foreign equity	25.0	35.0
Canadian debt	20.0	25.0
Foreign debt	5.0	0.0
Real return bonds	0.0	2.5
Real estate	12.5	12.5
Cash	2.5	0.0
	100.0	100.0

The largest portion of assets at 60% is committed to equities. As we experienced in 2001, publicly traded equities can be highly volatile in the short-term. However, despite short-term volatility and occasional negative returns, equities are expected to produce better returns than bonds and real estate over the long term.

In the first quarter of 2001, we moved a portion of our Canadian equity funds into foreign equities under our revised asset mix. The re-allocation anticipates that foreign equities will perform better than Canadian stocks over the long term and offset some of the volatility, thus lowering overall risk. Our debt holdings consist primarily of bonds, which are generally less risky and volatile than stocks. Bonds provide steady income as well as the return of the original capital at maturity.

Real estate has historically been an effective hedge against inflation, offsetting the indexed nature of pension benefits. Commercial real estate is also expected to deliver returns between those of bonds and stocks. To enjoy these advantages, we have increased our real estate holdings to the upper limit of the asset mix policy.

RATES OF RETURN vs. BENCHMARK IN EACH ASSET CLASS

Real return bonds earn inflation-adjusted returns and are the closest match with indexed pension payments, particularly with most issues maturing over 20 years. While attractive to a pension plan with indexed benefits, issuance of these products has been scarce.

Foreign exposure □ On a market value basis, approximately 35.9% of total assets were invested outside Canada through direct investments and derivative contracts. The increase from 27.6% a year earlier reflects our belief that international diversification is likely to produce better results over the long term. Our asset mix at cost is in full compliance with the federal government's foreign property limit of 30% for 2001.

With this portion of total assets at market value now allocated to foreign equities, our investment returns could be impacted by foreign currency movements. We introduced a hedging program in 2001 to protect foreign investment returns (and the surplus) from fluctuations in the Canadian dollar relative to other currencies. The program hedges 50% of the foreign exchange risk in 16 currencies in which we invest. In previous years, when our foreign exposure was substantially less, we did not hedge foreign exchange fluctuations. This worked in our favour because persistent declines in the value of the Canadian dollar in recent years produced higher investment returns. Going forward, we believe it is prudent risk management to hedge our currency exposure.

Equities □ We invest in publicly traded equities through both actively managed portfolios and indexed stock funds as well as in private equities.

We concluded 2001 with $14.1 billion invested in the shares of Canadian and foreign publicly traded companies. Approximately 52.9% of these stock holdings were outside Canada as we diversified risk beyond Canada's small and closely owned equity market. Foreign investing also enables us to invest in a wider choice of economic sectors than those available in Canada.

Actively managed stocks: Our actively managed Canadian stock portfolios are 94% managed by internal staff and 6% by external managers with expertise in particular market niches. These portfolios decreased by $3.6 billion to $5.2 billion in 2001 as we reallocated funds to foreign equities and markets declined. The portfolios contained the shares of approximately 190 publicly traded companies. We are primarily a value investor focused on buying and holding the shares of established and profitable companies that can produce reliable long-term returns. However, our investment professionals have the discretion within approved asset allocation guidelines to take advantage of short-term trading opportunities to generate added portfolio value.

Our actively managed foreign stock portfolios are managed by investment specialists knowledgeable about regional and national markets in the United States and globally. In 2001, these portfolios grew by $0.5 billion to $5.5 billion and contained approximately 1,050 stocks. We select individual companies based on value, and portfolio risk is reduced by investing in different economies around the world. Approximately 50% of our foreign equity exposure is in the United States, with the remainder split between Europe, the Far East and emerging markets.

Indexed stock funds: While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost-efficient way to invest in the markets. In Canada, we invest $1.4 billion in the shares of the companies that make up the TSE 300 Index. Outside Canada, our index investing of $2.0 billion focused on the Russell 1000 Index of companies in the United States.

Merchant banking: We continue to expand our equity and debt holdings in private companies. At the end of 2001, OMERS had $1.3 billion invested in Canadian and foreign private equity and $0.3 billion in private debt. Private equity is expected to provide higher risk-adjusted long term returns than those available from publicly traded equities.

One of our principal vehicles for infrastructure investments is Borealis Capital Corporation, one of Canada's largest merchant banks. In 2001, we reduced our ownership of Borealis to 27% with other major corporate entities and the Borealis management team owning the remaining shares. As a strategic investor, we are able to participate in the returns generated by Borealis' financial and strategic support of start-up and growth companies offering technological innovation.

Fixed-income investments

□ We manage a $13.7 billion fixed-income portfolio of various Canadian government and corporate bonds, mortgages, cash and short-term instruments. Because the supply of government debt has declined as governments reduce or eliminate deficits, the proportion of the portfolio committed to corporate bonds has expanded in recent years. At the end of 2001 we had $2.6 billion invested in corporate debt securities.

Real return bonds □ In 2001 we expanded our holdings of real return bonds to 2.6% of the fund's assets, approximately equal to our target allocation for these securities. Because these bonds pay a return that adjusts with the inflation rate, they are an ideal match with our indexed liabilities.

Derivatives □ Derivatives enable us to maximize exposure to both domestic and foreign markets. They can provide greater liquidity than owning the underlying assets and are a cost-effective form of deploying investment strategies and enhancing overall returns. They also facilitate efficient risk management among different types of assets and global economies. Our derivative contracts are discussed in note 3 to the financial statements.

The notional value of derivative contracts in 2001 was $20.6 billion, compared with $7.8 billion a year earlier primarily due to the introduction of our currency hedging program. Net credit risk exposure at year-end was $147 million, or 0.4% of the fund. Extensive monitoring and control processes are in place to manage risk.

Real estate □ Real estate is one of the best investment assets available to match our liabilities. It generates superior returns over the long run, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds. The cash flow alone from rental income was sufficient in 2001 to pay 33% of all pension benefits.

We own one of the largest and most diversified real estate investment portfolios in Canada. The portfolio contains 125 properties, including major shopping centers, office buildings, multi-residential apartment complexes and industrial properties.

This portfolio was strengthened by the acquisition of Oxford Properties Group late in 2001. The purchase expanded the effective value of our real estate assets from $4.7 billion to $8.2 billion. We had previously owned 17% of Oxford. We have retained Oxford Properties as a premier property management brand.

Our total real estate exposure also includes equity in Canadian and U.S. property companies, as well as real estate investment trusts (REITs). Consistent with our commitment to global investing, we are diversifying internationally through real estate investment funds.

Socially responsible investing □ As an active equity investor, we consider the potential impact of non-financial factors on future returns. This is done as part of our due diligence research of a corporation as well as our monitoring of its ongoing performance.

Our *Investment Practices* booklet, updated in 2001, articulates our position on socially responsible investing. OMERS believes that well-managed companies are those that demonstrate respect for their employees, the environment, the communities in which they do business, and for human rights, as well as meeting financial standards. As a result, we believe that companies should account for their behaviour and its implications for the creation of value. In fact, we support the notion that companies should publish and update in their annual reports their policies and procedures with respect to social, ethical and environmental issues that materially affect performance.

We also believe that generating acceptable rates of return for our plan members and the creation of general economic value are not mutually exclusive. For example, we participate in various infrastructure projects and venture capital initiatives that provide broader benefits to the economy while generating the returns necessary to meet our fiduciary duty to members.

Corporate governance □ We believe in voting the shares we beneficially own on behalf of plan members to enhance their long term value. Senior OMERS staff vote all shares we own either directly or through the services of a specialized external agency.

Our *Proxy Voting Guidelines* were updated in 2001 and are posted on our web site. They set out our policy on various corporate governance matters and indicate how we will likely vote on individual issues. The guidelines are intended to be a flexible response to proposals by management and shareholders by taking a company's specific circumstances into consideration. As a rule, however, we oppose the granting of excessive stock options and the repricing of options when share values decline. We also object to takeover protection measures that might prevent the realization of full shareholder value. The following table summarizes our voting record in 2001 on key proposals put to the shareholders of Canadian and U.S. companies.

	Total Issues	For Management	Against Management	Abstain
Options programs	306	102	204	0
Insider Directors on committees	161	0	161	0
Options repricing	12	0	12	0
Social, ethical, environmental	71	19	38	14
Other issues	692	516	176	0
TOTAL	**1,242**	**637**	**591**	**14**

Board Mandate and Structure

[a] Board Mandate

OMERS mandate is set out in the *OMERS Act and Regulation*. Board responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix allocation
- Approving contribution rates
- Appointing CEO and monitoring organizational effectiveness
- Establishing executive compensation policy

[b] Board Membership

Board members are appointed by the Provincial Government for a maximum of two three-year terms. OMERS is governed by a thirteen-member board composed of:

- Six employee representatives
- Six employer representatives
- One provincial government representative

[c] Board Accountability

Most of the thirteen current members of the Board are Plan members—a constant reminder that policies and decisions must be in the best interests of stakeholders.

There are meetings nine times each year plus two annual strategy sessions. Board attendance in 2001 was close to 100%. The Board holds two regional meetings a year with Plan participants and conducts extensive consultations on key issues such as surplus and autonomy.

[d] Board Committees

The Board has four standing committees (listed below) and four sub-committees: governance, audit, compensation and appeals.

Executive Committee
Responsible for Board affairs, government relations, organizational changes. Serves as compensation sub-committee to handle executive compensation and performance.

Investment Committee
Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee
Oversees pension administration policy, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee
Responsible for human resource policies, annual budget, strategic plan and major purchases.

Walter Borthwick, left
John Sabo

Rick Miller, left
Susan O'Gorman

Bill Rayburn

David Kingston, left
Peter Leiss

BOARD MEMBERS

Employer Representatives

☐ Walter Borthwick, Chair
Town of Wasaga Beach

☐ Bill Rayburn
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

Frederick Biro
Peel Police Services Board

John Sabo
York Catholic District School Board

Dennis Neethling
Township of East Ferris

Roger Richard
Limestone District School Board
(until September 2001)

Employee Representatives

☐ Peter Leiss, Past Chair
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman
Ontario Nurses' Association

☐ Rick Miller
Ontario Professional Fire Fighters
Association

Dick McIntosh, Retired Member

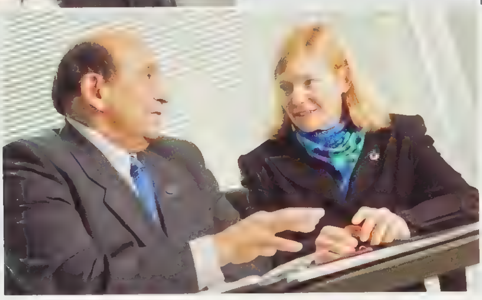
David Kingston
York Regional Police

Government of Ontario Representative
Nancy Bardecki

☐ Members of Executive Committee

David Carrington, left
Marianne Love

Fred Biro, left
Dick McIntosh



Dennis Neethling, left
Nancy Bardecki

SENIOR OFFICERS

Dale E. Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

Governance Track Record

[a] Governance Sub-Committee
The Board Governance Sub-Committee was established in 1998. It consists of the chair, first vice chair, immediate past chair and vice chairs of the pension, management and investment committees. The Sub-Committee reviews annually the mandate of the Board and its committees, evaluates the orientation and education programs, and reviews the composition, qualification, compensation and nomination process for Board members. It conducts a bi-annual Board self-evaluation with the assistance of independent consultants.

[b] Board Self-Evaluation
In April 2001, the Board conducted its second Board Effectiveness Survey, with a 100% response rate. The 2001 survey was conducted by independent consultants, and was based on a "best practice" approach using key dimensions of corporate governance in the financial and pension plan governance arena. The Governance Sub-Committee has stewardship for implementing the recommendations.

[c] Board Independence
The Board has access to outside experts in plan administration and fund investment to assist them in undertaking their oversight responsibilities.

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually. The Board appoints the auditor, custodian, and actuary, and regularly solicits legal advice. The Board holds regular in camera meetings.

The Board has responsibility for strategic direction setting, stewardship and oversight. Day-to-day management of OMERS is delegated to the CEO.

[d] Time Spent Analysis
The Board conducts an annual analysis of the percentage of time devoted to future planning vs. retrospective analysis and reviews of performance. The analysis is used to regulate an appropriate balance of activities.

[e] Board Education
There is a mandatory orientation program for new Board members, and an ongoing continuing education program for Board members at each regular Board meeting. In addition, each Board member attends relevant seminars and conferences.

Governance Improvements in 2001

The year 2001 saw a number of significant improvements in governance practices, which built upon the strong foundation already in place at OMERS:

[a] development of a Corporate Governance and Oversight Framework to ensure appropriate Board oversight of strategies, policies and reporting.

[b] adoption of a framework for Enterprise Risk Management to identify, manage and monitor risk.

[c] development of new succession and contingency plans for senior OMERS executives.

The cost of all current and future pensions is estimated on a regular basis to ensure the plan has enough money to pay secure pensions.

An independent actuary estimates the actuarial value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. Three key factors include investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits. These estimates are prepared every year and extrapolated long into the future. They assist the Board in making decisions about the plan's financial strategy, including the management of surplus funds.

Valuing the assets □ The market determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more objective picture of the long term relationship of assets to liabilities.

Valuing the liabilities □ To value the liabilities, the actuary examines the plan's demographics—the age, length of service, salary ranges, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active and retired members, former members who still have entitlements in the plan, and surviving spouses and children who receive benefits. In addition, mortality, disability and termination of employment data are factored in.

Calculating the surplus □ The present value of accrued liabilities is deducted from the actuarial value of assets to calculate the actuarial surplus. From this, 5% of liabilities is set aside in a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements. A contribution deficiency reserve of $1,691 million has been established to assist in the management of future contribution short-falls.

(Millions)	2001*	2000
Surplus, beginning of year	**$5,804**	**$5,469**
Change in net assets available for benefits	(2,632)	945
Change in actuarial fair value adjustment	4,152	2,044
Increase in actuarial value of net assets available for benefits	1,520	2,989
Less: net increase in accrued pension benefits	2,520	2,260
Less: change in contribution liability	43	394
Surplus, end of year	**$4,761**	**$5,804**

* Projection based on 2000 valuation and changes in assets and benefits during 2001.

Fund Performance

□ Our long term goal is to exceed the funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index. Our timeframe for doing this extends over several decades and involves selecting investment assets to pay retirement income to all current plan members during their lifetime. As a result, we focus on long-term investment performance.

Over the past 27 years, since OMERS was empowered to pursue an active investment policy, the fund has achieved a compounded annual rate of return of 10.7%. During the past 10 years, the return was 10.3%. These long-term returns are well above the level required to keep the plan fully funded.

Returns are also measured in the short-term to monitor performance in volatile markets. If short-term returns deviate unusually from market results, we can refine the investment policy and asset mix to better balance fluctuations over the long term.

In 2001, our annualized rate of return for four years (a standard in the pension fund industry) was 6.8%. This exceeded the four-year funding requirement of 6.1%. The one-year return for 2001 was a negative 3.4%, compared with a positive 5.0% for the funding requirement. Though we recorded a negative one-year return, we nonetheless succeeded in outperforming the markets and beating the fund benchmark of negative 4.2%. Our real estate and fixed income portfolios recorded strong returns, however the gains were offset by the poor performance of the equity markets.

Investments at market value totaled $37.2 billion at the end of 2001, nearly $0.5 billion greater than the previous year. Investment assets rose in 2001, despite declining equity markets, due to the purchase of Oxford Properties, which added $4.2 billion of assets and a corresponding $2.5 billion of debt. Approximately 63% of gross investment assets were non-interest bearing, including equities and real estate. Bonds, mortgages and short-term deposits that produce interest income comprised the remaining 37%.

Asset class performance vs. benchmarks

□ A short-term goal is to add value above the returns of the markets in which we invest. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. When we exceed the benchmark, we add value to the portfolio over and above the return that comes from the markets themselves. These benchmarks are aggregated and weighted to conform with our asset mix policy to provide a benchmark for the total fund.

Our $13.7 billion Canadian fixed-income portfolios performed well with an 8.1% return in 2001, versus 7.8% for the benchmark (the Scotia Capital Bond Universe Index and the Scotia Capital 30-Day T-bill). The gain of 25 basis points primarily reflected an overweight position on corporate and provincial bonds over Government of Canada bonds.

In the equity category, our total Canadian stock portfolio did slightly better at minus 11.4%, than the benchmark of minus 11.7% (a blend of the TSE 300 Index, the Nesbitt Burns Small Cap, the TSE 60 and custom private placement).

Within the stock portfolio, our merchant banking operation posted a return of 0.0%, surpassing the negative 7.2% benchmark (the TSE 300 Index adjusted). Over the past four years, merchant banking has earned an average annual rate of return of 11.0%, more than double the 4.7% for the benchmark.

Our foreign portfolios had a total return of minus 9.9%, bettering the minus 10.4% benchmark (based on the Russell 3000 Index in the U.S. and the Goldman Sachs Global Index, excluding Canada and the U.S.). Our actively managed U.S. portfolios, which make up about half of the $7.5 billion in foreign equities, added good value, while non-North American equities performed poorly.

The real estate portfolio had another strong year with a 13.5% return in 2001, following the 14.5% earned in 2000. The 2001 performance compared with a 7.9% return for the benchmark (85% of the five-year smoothed CPI plus 4.75%, and 15% of the TSE 300 Real Estate Sub-index). We expanded our portfolio of high-quality properties late in October 2001 through the acquisition of Oxford Properties Group. Real estate assets totaled $8.2 billion at year-end, before $3.6 billion in related mortgages and other debt, and are expected to generate reliable and growing value added in future years.

Growth in liabilities □ The actuarial present value of accrued pension benefits totaled $30.2 billion at the end of 2001, a 9.1% increase over the previous year. In the 2000 valuation, an additional provision of $0.4 billion was made to establish an actuarial contribution liability reserve, which covers the anticipated differential increase in the actuarial cost caused by the Baby Boom generation moving through the OMERS active membership.

The plan's financial obligations to active, retired and former members have grown substantially in recent years, a trend that will continue as the Baby Boom generation enters retirement and members take advantage of early retirement enhancements.

Cash flow □ We received $1.6 billion in cash flow during 2001 (similar to the previous year) from interest, dividend and rental property income. The cash flow was more than sufficient to meet the $1.2 billion in pension benefit obligations during the year.

Future cash flow will improve as the contribution holiday expires and employer and member contribution rates gradually return to normal. In addition, our increased investment in real estate is expected to generate a larger and more reliable source of cash in the form of rental income.

Change in net assets □ Overall, we outperformed the markets in 2001, adding a total of 76 basis points, or more than $250 million, to the fund. However, the plan's net assets decreased by $2.6 billion to end the year at $33.2 billion.

We experienced a $1.3 billion loss in net investment income. Equities lost $2.8 billion, while fixed income securities and real estate earned $1.5 billion.

The decrease in net assets was a result of several factors, including the worst market decline in decades. In addition, there was a rise in pension costs because of benefit improvements and an increase in the number of retirees, with a total of $1.2 billion in benefit payments paid out in 2001, an increase of $148 million from the previous year. We collected no normal contributions due to the continuation of the holiday begun in August of 1998.

A total of $85 million in administrative costs was also deducted from net assets, compared with $73 million a year earlier (Administrative expenses are tabulated in note 13 to the financial statements). The increase was primarily due to the expansion of our e-business and members' services, reflecting our commitment to customer service excellence.

Actuarial Cost Certificate

AS AT DECEMBER 31, 2001 FOR THE
ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 2000 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 2000 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $28,428.707 million in respect of benefits accrued for service to December 31, 2000 (including liabilities of $325.210 million in respect of plan amendments made in 2001). The Actuarial Assets at that date were $33,954.293 million indicating a going concern Actuarial Surplus of $5,525.586 million, of which the Board has allocated $1,401.703 million to a Funding Stabilization Reserve and $1,637.301 million to a Contribution Deficiency Reserve. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2000 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $46.451 million, leaving an overall Actuarial Surplus of $5,479.135 million ($5,804.345 million prior to recognizing the 2001 amendments).

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 2000. In our opinion, the value of the Plan assets would have been greater than the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2001. Further, we have calculated the Actuarial Assets at December 31, 2001. In our opinion, the assets of the Fund at December 31, 2001 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on a going concern basis and more than 97% of the corresponding liabilities on a wind up basis.

The actuarial valuation of OMERS as at December 31, 2000 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- ☐ the data are sufficient and reliable for the purposes of the valuation,
- ☐ the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- ☐ the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT & COMPANY

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
February 22, 2002

Daniel J. Morrison, F.S.A.
Fellow, Canadian Institute of Actuaries

Responsibilities of Management, the Actuary and External Auditors

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Sub-Committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Sub-Committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Sub-Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Sub-Committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

Auditors' Report

To the Ontario Municipal Employees Retirement Board

We have audited the Consolidated Statement of Net Assets of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2001 and the Consolidated Statement of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2001 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 22, 2002

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions) As at December 31,	2001	2000
ASSETS		
Investments (note 2)	$ 37,246	$ 36,776
Accrued income	120	145
Amounts due from pending trades	176	389
Goodwill (note 1)	460	95
Other assets (note 7)	256	85
Total Assets	38,258	37,490
LIABILITIES		
Investment liabilities (notes 2 and 4)	3,565	270
Due to administered pension funds (note 5)	487	528
Future income taxes	346	61
Amounts payable from pending trades	128	468
Other investment liabilities (note 8)	284	122
Other pension liabilities	205	166
Total Liabilities	5,015	1,615
NET ASSETS (note 9)	$ 33,243	$ 35,875

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions) For the year ended December 31,	2001	2000
INCREASES IN NET ASSETS		
Net investment income (note 10)	$ –	$ 2,053
Contributions (note 11)	36	30
Total Increase	36	2,083
DECREASES IN NET ASSETS		
Net investment loss (note 10)	1,335	–
Benefits (note 12)	1,193	1,045
Administrative expenditures (note 13)	85	73
Interest on investment liabilities	55	20
Total Decrease	2,668	1,138
INCREASE/(DECREASE) IN NET ASSETS	(2,632)	945
Net assets at beginning of year	35,875	34,930
NET ASSETS AT END OF YEAR	$ 33,243	$ 35,875

The accompanying notes to the consolidated financial statements are an integral part of this statement.

YEAR ENDED DECEMBER 31, 2001

Description of the Plan □ The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *Ontario Municipal Employees Retirement System Act* (OMERS Act) *and Regulation*. The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the OMERS Act. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

a) Funding □ The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation*, the *Income Tax Act (Canada)* and the PBA.

b) Pensions □ The normal retirement age is 65 years for all OMERS members except police officers and fire fighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

c) Death Benefits □ Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

d) Withdrawals from the Plan □ Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

e) Escalation of Pensions □ Pension benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

f) Income Taxes □ OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received. The sale of assets in certain subsidiaries may be taxable where OMERS has taken over control of a previously taxable entity.

g) Retirement Compensation Arrangement □ The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

Note 1 □ Summary of Significant Accounting Policies

Basis of Presentation □ These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation □ OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments □ Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the statement of changes in net assets.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost which, together with accrued interest income, approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

Note 1 □ Summary of Significant Accounting Policies *continued*

iii) Real estate, composed primarily of income producing properties, is generally valued through an appraisal process which utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return. The appraisal process is carried out annually by independent appraisers in accordance with generally accepted appraisal practices and procedures.

The fair value of any real estate which has been recently acquired is based on the purchase price.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.

v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values where available, or discounted cash flows using current market yields, where quoted market values are not available.

Investment income includes interest, dividends and operating income from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Investment Liabilities □ Investment liabilities include mortgages and other debt obligations, primarily related to investments in real estate. The fair value of liabilities is estimated using discounted cash flows based on current market yields.

Non-Investment Assets and Liabilities □ The fair value of accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades, other investment liabilities and other pension liabilities approximate their carrying amounts due to their short-term nature.

Foreign Currency Translation □ Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains on disposal of investments.

Future Income Taxes □ Future income taxes are calculated based on the difference between the fair value of assets and liabilities acquired and the related tax basis expected to exist when the asset is realized or the liability is settled.

Goodwill □ Goodwill arises on the acquisition of control of a corporate entity. It is calculated as the difference between the cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. In each year subsequent to the acquisition the value of the goodwill is reassessed and impairment, if any, is reflected in investment income.

Note 2 □ Investments

	2001		2000	
(Millions)	Fair Value	Cost	Fair Value	Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	$ 4,374	$ 4,374	$ 2,907	$ 2,907
Canadian bonds and debentures	6,905	6,730	8,133	7,958
Real return bonds	875	898	773	764
Private debt	307	300	299	299
Mortgages	1,225	1,186	1,413	1,395
	$ 13,686	$ 13,488	$ 13,525	$ 13,323
NON-INTEREST BEARING INVESTMENTS				
Canadian equities	6,642	5,046	10,732	6,900
Non-Canadian equities	7,452	6,777	6,684	5,435
Real estate (note 6)	8,181	7,889	4,707	4,560
Resource properties	116	105	141	104
Canadian private equities	641	635	444	405
Non-Canadian private equities	528	442	543	434
	$ 23,560	$ 20,894	$ 23,251	$ 17,838
Investments	$ 37,246	$ 34,382	$ 36,776	$ 31,161
less: Investment liabilities (note 4)	(3,565)	(3,554)	(270)	(266)
Net Investments	$ 33,681	$ 30,828	$ 36,506	$ 30,895

At December 31, 2001, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investments:

	2001 Aggregate			2000 Aggregate		
($ Millions)	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian interest bearing investments	2	$ 788	$ 782	3	$ 1,177	$ 1,164
Canadian equities	2	675	670	3	2,659	1,182
Real estate properties	3	1,083	910	3	1,148	1,000
	7	$ 2,546	$ 2,362	9	$ 4,984	$ 3,346

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest bearing securities issued by the Government of Canada and equity securities issued by Nortel Networks Corporation and the Royal Bank of Canada. Real estate investments above include ownership interest in the following properties, all of which are located in Ontario: Royal Bank Plaza, Square One Shopping Centre and Yorkdale Shopping Centre.

OMERS holds a number of its real estate investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $4,059 million at December 31, 2001 (2000 - $2,721 million). OMERS share of the net income earned by these entities was $165 million for the year ended December 31, 2001 (2000 - $166 million) and is included in net investment income from real estate.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

Note 2 □ Investments *continued*

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2001, securities with an estimated fair value of $2,223 million (2000 - $2,845 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,292 million (2000 - $2,987 million).

Risk Management □ Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, requires diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 3).

Foreign Currency Risk □ Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is hedged back into Canadian Dollar exposure through the use of foreign exchange forward contracts. The Fund's net investments by geographical location of the issuer and by net currency exposure as at December 31 are as follows:

	Geographical Location		Net Currency Exposure	
(Millions - Canadian dollar equivalent)	**2001**	2000	**2001**	2000
Canada	**$ 21,601**	$ 26,447	**$ 27,238**	$ 26,471
United States of America	**6,101**	5,046	**3,480**	5,180
Euro zone [1]	**1,873**	1,561	**946**	1,523
United Kingdom	**1,514**	967	**756**	952
Japan	**1,031**	1,327	**493**	1,328
Other Western Europe	**741**	660	**452**	660
Other Pacific	**420**	274	**185**	271
Emerging Markets	**400**	224	**131**	121
	$ 33,681	$ 36,506	**$ 33,681**	$ 36,506

The above table allocates the market and net currency exposure of Canadian assets backing derivatives to the geographical location/currency of the underlying asset or index from which the derivative contract derives its value.

1 Euro zone includes the eleven member countries using the Euro currency.

Interest Rate Risk □ Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

Note 2 □ Investments *continued*

	2001					2000	
	Term to Maturity						
(Millions)	Within 1 Year ($)	1 to 5 Years ($)	Over 5 years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	4,374	–	–	4,374	2.21%	2,907	5.83%
Canadian bonds and debentures	742	2,348	3,815	6,905	5.34%	8,133	5.78%
Real return bonds	–	–	875	875	3.79%	773	3.52%
Private debt	1	116	190	307	6.76%	299	8.16%
Mortgages	231	355	639	1,225	5.96%	1,413	7.34%
TOTAL	5,348	2,819	5,519	13,686	4.10%	13,525	5.88%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 33.7 per cent (2000 - 30.5 per cent) of the Canadian bonds and debentures.

Market Risk □ Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments which are designed to mitigate the impact of market risk.

Credit Risk □ The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

Note 3 □ Derivative Financial Instruments

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolios. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- □ **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.

- □ **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Note 3 □ Derivative Financial Instruments *continued*

- **Options**, which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;

- enters into derivatives only on an unlevered basis; and

- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

Note 3 □ Derivative Financial Instruments *continued*

	2001				2000		
		Fair Value				Fair Value	
(Millions)	Notional Value	Assets	Liabilities	Credit Risk (replacement cost)	Notional Value	Assets	Liabilities
Interest rate swap contracts	$ 954	$ 6	$ (15)	$ 6	$ 927	$ 8	$ (15)
Bond index swap contracts	304	1	–	1	215	1	–
Equity index swap contracts	848	47	–	47	760	–	(51)
Equity swap contracts	15	–	(1)	–	67	–	(7)
Equity index futures contracts	4,168	–	(23)	–	2,860	5	(24)
Equity options	105	–	(4)	–	–	–	–
Bond options – written	100	–	–	–	70	–	(3)
Bond options – purchased	200	–	–	–	335	5	–
Foreign exchange forward contracts	13,943	93	(96)	93	2,581	25	(33)
Total	$ 20,637	$ 147	$ (139)	$ 147	$ 7,815	$ 44	$ (133)

All derivative instruments mature within one year except interest rate swap contracts with a notional value of $463 million that mature between 2002 and 2007 (2000 - $410 million that mature between 2001 and 2006) and $96 million that mature beyond 2007 (2000 - $34 million that mature beyond 2006).

Note 4 □ Investment Liabilities

Investment liabilities are comprised of secured and unsecured debt. Mortgages are secured by charges on specific real estate properties and other debt is secured by Canadian bonds.

Debt relating to Real Estate operations comprises:

	2001		2001 Weighted Average Interest	2000		2000 Weighted Average Interest
(Millions)	Fair Value	Cost	Rate	Fair Value	Cost	Rate
Unsecured debt	$ 367	$ 365	7.05%	$ –	$ –	–
Mortgages	1,898	1,889	7.63%	270	266	8.41%
Other secured debt	1,300	1,300	2.28%	–	–	–
Total	$ 3,565	$ 3,554	5.61%	$ 270	$ 266	8.41%

Note 4 □ Investment Liabilities *continued*

Scheduled principal repayments for each of the five years subsequent to December 31, 2001 and thereafter are as follows:

(Millions)		
2002	$	227
2003		1,535
2004		190
2005		117
2006		204
Thereafter		1,268
Total	$	3,541

Excludes net premium/(discount) on debt of $13 million assumed on acquisition of properties.

Note 5 □ Due to Administered Pension Funds

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

Note 6 □ Real Estate Acquisition

Acquisition of Oxford Properties Group Inc. ("OPGI")

In October 2001, OMERS through its wholly owned subsidiary BPC Properties Ltd., acquired (for a cash price of $23.75 per common share) all of the common shares of OPGI that it did not already own. OPGI is a fully integrated commercial real estate operating company. OMERS had previously owned 17 per cent of the outstanding shares of OPGI on a fully diluted basis.

The estimated allocation of the fair value of OPGI's net assets acquired and the cost of acquisition is summarized below.

(Millions)		
ASSETS ACQUIRED		
Real estate properties	$	3,539
Fair value of other assets		216
Goodwill arising from acquisition		396
Total assets acquired	$	4,151
LIABILITIES ASSUMED		
Debt assumed from real estate properties	$	2,016
Other liabilities assumed		216
Future income taxes		303
Total liabilities assumed		2,535
Net assets of OPGI	$	1,616
Less: Shares previously held		258
Net Assets Acquired	$	1,358

The acquisition of net assets was financed through the use of debt (note 4).

Note 7 □ Other Assets

(Millions)	2001	2000
Real estate receivables	$ 111	$ 35
Real estate deferred assets	131	34
Other	14	16
	$ 256	$ 85

Note 8 □ Other Investment Liabilities

(Millions)	2001	2000
Real estate payables	$ 184	$ 51
Real estate deferred revenue	100	71
	$ 284	$ 122

Note 9 □ Net Assets

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	2001	2000
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases	4.5%	4.5%
Assumed actuarial rate of return on plan assets	7.25%	7.25%

The extrapolation of the actuarial valuation to December 31, 2001, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2001. The 2000 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2000.

The valuation includes a contribution liability, which has been developed in accordance with accepted actuarial practice to stabilize contributions. It is determined as the present value of the temporary increase in the annual actuarial cost over the next twenty-five years, and is subtracted from the excess of the actuarial value of net assets over the actuarial present value of accrued pension benefits before the allocation of reserves.

Note 9 □ Net Assets *continued*

(Millions)	2001	2000
Fair value of net assets at end of year*	$ 33,236	$ 35,867
Adjustment to the fair value for actuarial purposes	2,239	(1,913)
Actuarial value of net assets at end of year	35,475	33,954
Actuarial present value of accrued pension benefits at beginning of year	27,710	25,462
Interest accrued on benefits	2,028	1,845
Benefits accrued	1,081	1,030
Benefits paid	(1,193)	(1,045)
Plan amendments	325	–
Experience losses	275	418
Actuarial present value of accrued pension benefits at end of year	30,226	27,710
Actuarial contribution liability	437	394
Total actuarial liabilities	30,663	28,104
Full earnings pension assets	7	8
Full earnings pension liability	58	54
Net liability of full earnings pension	51	46
	30,714	28,150
Excess of actuarial value of net assets over actuarial liabilities	$ 4,761	$ 5,804

* Excludes full earnings pension assets.

A portion of the excess of actuarial value of net assets over the actuarial liabilities has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve as at December 31, 2001 is $1,511 million (2000 - $1,402 million). A further allocation of the excess assets over liabilities has been made to a Contribution Deficiency Reserve in the amount of $1,691 million for 2001 (2000 - $1,637 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

In December 2001, the following benefit improvements were approved by the Government of Ontario, as recommended by the OMERS Board:

1. The early retirement window was extended through 2004 on a modified basis. The earliest retirement eligibility age will be 15 years prior to the normal retirement age (NRA) in 2002 and 2003, reverting to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor of 2.5% per year for members not eligible for an unreduced early retirement pension will be maintained for 2002 and 2003, reverting to 5.0% per year in 2004. The years of age plus service required for an unreduced early retirement pension will be as follows:

Year	NRA 60	NRA 65
2002	77	82
2003	79	84
2004	80	85
2005	85	90

2. Members who retired prior to 1978 with a career average pension will be given a pension increase of 1.92% retroactive to January 1, 1999. The increase is equal to the average percentage increase received by other retired members of OMERS when the CPP offset was reduced from 0.7% to 0.675%.

The liability increase at December 31, 2001 associated with the two benefit improvements is $314 million for the early retirement window and $11 million for the pension increase.

Note 9 □ Net Assets *continued*

Solvency Valuation □ The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act* of Ontario, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. In past years, the solvency valuation has been performed on a fair value basis at a point in time using the fair value of assets and a liability discount rate based on real return bond yields at the valuation date. Starting in 2001, as permitted by the *Pension Benefits Act*, the solvency valuation uses the actuarial value of assets, which averages market value fluctuations over 5 years, and a liability discount rate based on 5-year average real return bond yields. The prior year's figures are presented on the current year basis restated to reflect the actuarial valuation conducted as of December 31, 2000.

The actuarial present value of accrued pension benefits, excluding the full earnings pension benefits, was estimated to be $33,864 million as at December 31, 2001 (2000 - $31,300 million). As at December 31, 2001, the actuarial value of net assets excluding the full earnings assets was $35,475 million (2000 - $33,954 million). A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

NOTE 10 □ Net Investment Income/(Loss)

a) **Net Investment Income/(Loss) Before Allocating the Effect of Derivative Contracts**
Investment income before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $32 million (2000 - $34 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income (loss) from derivative financial instruments of $(939) million (2000 - $(371) million) is included in the net gain/(loss) on investments.

(Millions)	2001	2000
INCOME		
Interest Bearing Investments		
Short-term deposits	$ 151	$ 153
Canadian bonds & debentures	485	509
Real return bonds	34	9
Non-Canadian bonds	–	28
Private debt	32	28
Mortgages	107	101
	809	828
Equity Investments		
Canadian equities	122	151
Non-Canadian equities	195	98
Resource properties	42	20
Canadian private equities	(20)	49
Non-Canadian private equities	5	14
	344	332
Real Estate Investments	394	314
NET GAIN/(LOSS) ON INVESTMENTS [1]	(2,886)	626
	(1,339)	2,100
Less income/(loss) credited to:		
Administered pension funds	(21)	31
Provision for supplementary retirement benefits	17	16
	$ (1,335)	$ 2,053

[1] Includes net realized loss of $225 million (2000 - gain of $2,004 million).

Note 10 □ Net Investment Income/(Loss) *continued*

b) Investment Income/(Loss) by Major Asset Class

Investment income/(loss) by major asset class, after allocating the realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2001	2000
Interest Bearing Investments	$ 888	$ 1,121
Equity Investments		
Canadian	(1,239)	1,419
Non-Canadian	(1,576)	(880)
Real estate Investments	588	440
	$ (1,339)	$ 2,100

Note 11 □ Contributions

(Millions)	2001	2000
Employers, long-term receivables and interest thereon	$ 4	$ 4
Transfers from other pension plans	18	14
Other contributions	14	12
	$ 36	$ 30

Effective August 1998, a contribution holiday for both members and employers was put into place. The contribution holiday is reviewed annually and an extension that is intended to end no sooner than June 30, 2002, has been approved. These initiatives were introduced as part of the surplus management measures discussed in note 9.

Note 12 □ Benefits

(Millions)	2001	2000
Members' pensions	$ 1,034	$ 916
Commuted value payments	90	87
Members' contributions plus interest refunded	35	34
Transfers to other pension plans	34	8
	$ 1,193	$ 1,045

Note 13 □ Administrative Expenditures

a) Operating Expenses

(Millions)	2001	2000
Personnel services	$ 42	$ 36
System development and other purchased services	26	21
Premises and equipment	12	10
Professional services [1]	3	3
Transport & communication	2	3
	$ 85	$ 73

1 Professional services includes actuarial costs of $ 0.5 million (2000 - $0.5 million), audit costs of $0.4 million (2000 - $0.4 million) and legal costs of $1.0 million (2000 - $0.5 million).

Note 13 □ Administrative Expenditures *continued*

b) Executive Compensation

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 1999, 2000 and 2001 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus [1]	Other Compensation [2]	Taxable Benefits
Dale E. Richmond	2001	$ 319,729	$ 99,359	$ 15,380	$ 29,254
President and C.E.O.	2000	310,473	–	23,892	22,048
	1999	304,431	–	9,955	20,505
Michael Beswick	2001	$ 174,904	$ 55,078	$ 8,510	$ 17,738
Senior Vice President	2000	164,187	19,982	7,964	9,814
Pensions	1999	155,235	12,834	7,507	9,849
Wayne Gladstone	2001	$ 193,658	$ 56,320	$ 9,615	$ 13,281
Senior Vice President	2000	165,148	18,982	12,836	11,662
Finance and Administration	1999	161,984	15,334	7,808	11,678
Tom Gunn	2001	$ 284,864	$ 197,186	$ 30,744	$ 1,332
Senior Vice President	2000	274,569	92,000	22,840	1,232
Investments	1999	268,269	65,000	21,283	1,074
Debbie Oakley [3]	2001	$ 157,318	$ 8,313	$ 7,212	$ 11,680
Senior Vice President					
Corporate Affairs					

1 Based on prior year's performance.
2 Includes vacation cash-in and car allowance.
3 Promoted to the position October 2000.

Note 14 □ Commitments

As part of normal business operations, OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2001, these commitments totalled $1.5 billion (2000 - $1.0 billion).

Ten Year Review of Financial Data

($ Millions)	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Net Investments at market*										
Debt	**13,686**	13,525	11,566	12,947	10,625	8,554	6,737	6,560	6,673	5,682
Equity	**15,379**	18,544	19,586	15,587	16,022	14,612	12,149	11,935	11,570	8,505
Real Estate**	**4,616**	4,437	4,126	3,995	2,729	2,450	2,391	2,151	1,846	1,646
	33,681	36,506	35,278	32,529	29,376	25,616	21,277	20,646	20,089	15,833
Assets at market value*										
Total Fund	**33,243**	35,875	34,930	31,380	29,108	25,378	21,213	18,389	17,778	14,005
Liability for:										
Supplementary agreements	**165**	148	131	116	110	121	120	134	139	136
Administered pension plans	**487**	528	502	437	395	341	345	2,463	2,362	1,841
	33,895	36,551	35,563	31,933	29,613	25,840	21,678	20,986	20,279	15,982
Investment Income earned (including realized & unrealized gains)										
Basic Plan	**(1,335)**	2,053	4,598	2,867	3,692	4,074	2,625	310	3,363	475
Supplementary benefit agreements	**17**	16	16	13	11	9	11	13	8	2
Administered pension plans	**(21)**	31	69	39	51	55	381	44	448	106
	(1,339)	2,100	4,683	2,919	3,754	4,138	3,017	367	3,819	583
Contributions received for										
Basic plan	–	–	–	364	869	874	869	870	890	878
Basic plan unfunded liabilities	**36**	30	27	8	21	8	6	9	11	12
Supplementary benefit agreements	–	–	–	–	–	–	1	–	1	–
	36	30	27	372	890	882	876	879	902	890
Payments to members										
Pensions paid	**1,034**	916	817	761	699	661	570	491	414	373
Contributions and interest refunded	**125**	121	178	149	104	89	67	51	43	37
Transfers to other plans	**34**	8	10	10	9	6	6	4	6	13
	1,193	1,045	1,005	920	812	756	643	546	463	423
Expenditures										
Administration	**85**	73	70	47	40	35	33	33	31	30
Investment operating	**32**	34	28	30	24	25	22	18	16	15
	117	107	98	77	64	60	55	51	47	45
Total Fund annual rate of return										
Time weighted return on market value	**-3.4%**	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%	23.7%	3.9%
Benchmark	**-4.2%**	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%	20.5%	2.7%
Funding Requirement	**5.0%**	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%	6.0%	6.3%

* Market Value as at December 31.

** Net of Investment Liabilities.

OMERS
One University Avenue, Suite 1000
Toronto, Ontario M5J 2P1

Telephone 416.369.2400
Toll free 1 800 387.0813
E-mail client@omers.com
www.omers.com

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ISSN 1488-0600

OMERS
Plan for the Future

PLAN

OMERS

Annual Report 2002

READY

FOR THE FUTURE

OMERS will continue to provide its growing number of members with a secure financial foundation for their retirement.

We are committed to offering efficient service, delivering pension payments on time and providing guaranteed benefits to plan participants.

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Toronto, Ontario M5J 2P1

Telephone 416.369.2400
Toll free 1.800.387.0813
E-mail client@omers.com
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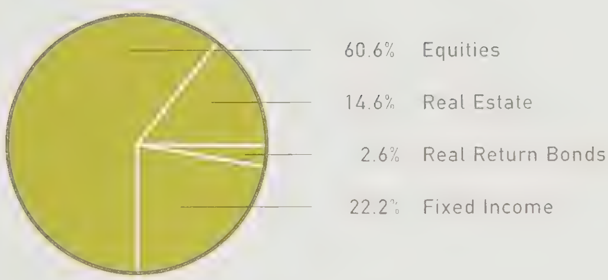
OMERS
Plan for the Future

Although short-term returns are disappointing, our investments continue to provide the long-term results needed to pay secure pensions.

ASSET MIX (AS AT DECEMBER 31, 2002)



Net of investment liabilities

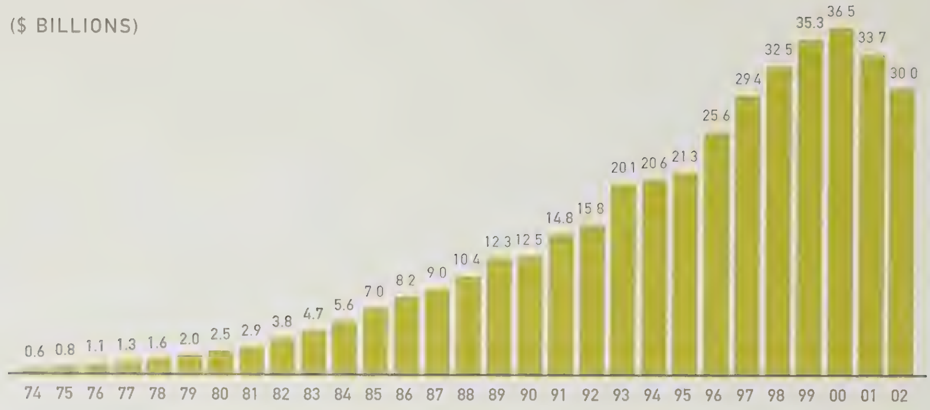
ACTUARIAL ASSETS AND LIABILITIES (AS AT DECEMBER 31)

($ BILLIONS)

*Estimate based on 2001 actuarial valuation

INVESTMENT ASSET GROWTH FROM 1974

MARKET VALUE ($ BILLIONS)



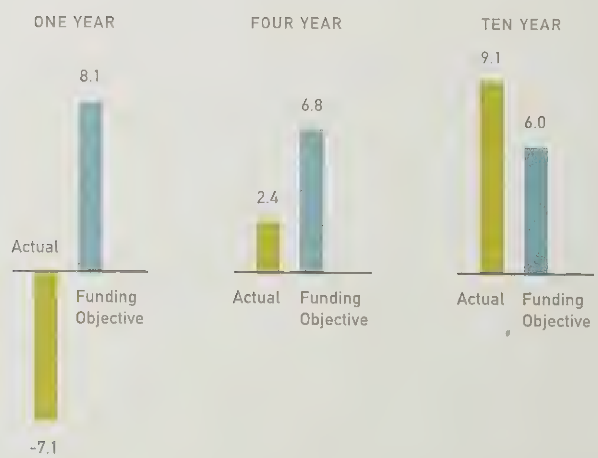
Net of investment liabilities

GROWTH IN PENSION PAYROLL

($ MILLIONS)

OMERS RATE OF RETURN VS. FUNDING OBJECTIVE

(%)



Long-term results continue to exceed our funding objective.

OMERS will continue to provide its growing number of members with a secure financial foundation for their retirement.

We are committed to offering efficient service, delivering pension payments on time and providing guaranteed benefits to plan participants.

The benefits of a secure plan

The OMERS Plan remains secure following the most turbulent investment year in our 40-year history.

The continued collapse of equity markets in 2002 diminished our asset values and depleted much of the surplus accumulated in recent years. Despite the second (and consecutive) negative investment return since 1990, the 10-year return still exceeded the plan's funding requirement by a healthy margin and we ended the year with a small actuarial surplus. This was a remarkable accomplishment during a period in which pension benefits were enriched and employers and members enjoyed a contribution holiday.

MANAGING THE SURPLUS

The sharp decline in equity values in such a short period was a reminder of how fast a surplus can disappear, while pension costs continue to rise. Knowing the importance of having something for a rainy day, we did not spend every last dollar. In the future, we will have greater latitude to manage the surplus. The federal government has indicated that it will amend the *Income Tax Act* to allow pension contributions to

phase out as surplus exceeds 110% of liabilities, rather than stop completely as is currently required. However, unless markets recover to increase the value of invested assets, maintaining a surplus will be a challenge over the next few years.

A MODERN, PROFESSIONAL ORGANIZATION

OMERS is a disciplined, highly efficient, and technology-based organization. Rigorous strategic planning enables the Board and management to see the future and its challenges with greater clarity. Enterprise-wide risk-management policies and procedures make it easier for us to handle the unexpected. Commitment to and investment in technology have produced impressive gains in delivering faster, more comprehensive pension services as we continue to expand our web-based services. Expanded market research programs have helped us to better understand our customers and position ourselves for the future. Our investment professionals have further enhanced our portfolio through diverse assets like real estate, real return bonds and infrastructure that promise greater stability and higher long-term returns.

A TRIPLE-A PLAN

Having a finely tuned and tightly focused organization helps to ensure the security of pension benefits. Our financial and operating strengths were recognized in late 2002 by two major credit rating agencies. Both assigned OMERS an AAA credit rating, the highest rating possible and a tribute to the plan sponsors, OMERS management and employees. Together, we have built a strong organization with solid benefits, a solid investment fund and a solid financial reputation.

"Our members know their pensions are secure, despite short-term fluctuations in the market."

WORKING TOWARD AUTONOMY

Following extensive consultation with our stakeholders, the Board submitted a proposal for a new governance model to the Ontario government in March 2002. Although we await further direction from the provincial government, our stakeholders' contributions to the process were invaluable in moving the debate forward. The Board's proposed model involved the creation of a sponsors' committee, with equal representation from employers and members, who would make all decisions on plan design. Employer and member groups would also appoint representatives to the Board, which would continue to have fiduciary responsibility for plan administration, investment policy and management. In brief, those who financially support OMERS would be fully responsible for its governance and accountable to members. Regardless of the government's decision, pensions will remain secure and we remain committed to strengthening our relationships with our stakeholders.

ACKNOWLEDGEMENTS

Thank you for the opportunity to serve you during this past year. I would like to thank my Board colleagues, management and employees for their hard work during a challenging year. I also want to thank Plan sponsors and stakeholders for their ongoing commitment to OMERS. I am confident that OMERS is well positioned to manage through any challenges that may arise in the future. On behalf of the Board, the staff and all OMERS members, a special thanks to Dale Richmond who will retire in 2003. Dale was appointed chief executive officer in August 1993. He has led OMERS as it has grown as both a first-rate pension plan and a responsible and successful institutional investor.

Rick Miller

Rick Miller
Chair

Managing for the future

Our corporate signature – Plan for the Future – was put to the test in 2002. Because of our commitment to multi-year planning and long-term surplus management, we were able to use surplus to cushion short-term investment losses. The long-term return of the total fund continued to exceed the level required to pay future pensions. Furthermore, the investments we have made in recent years to rebuilding OMERS as a knowledge-based organization are paying off in much better service to members and employers. As a result, we have a firm foundation on which OMERS can sustain a tradition of success in all aspects of service.

AN EXPERIENCED INVESTMENT TEAM

Navigating the peaks and valleys of capital markets requires great skill and discipline. We are fortunate to have a proficient investment team of determined professionals with the ability to develop and put into action a prudent long-term investment strategy. These professionals understand that as much as 80% of the funds to pay future pensions must come from their efforts and they invest by focusing on long-term performance.

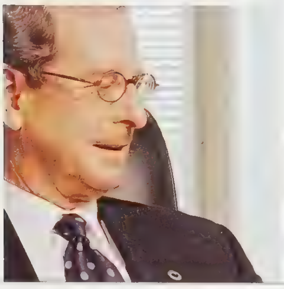
We work hard to optimize long-term investment returns, recognizing that we will periodically encounter extremely difficult short-term markets, as we did in 2002. In recent years, we have increased fund exposure to foreign equity markets, private equities, real estate, infrastructure assets and fixed-income securities. These assets tend to soften the volatile returns from stock markets, although public equities at home and abroad remain our largest single asset class and will serve OMERS well over the long term. Still, in view of expected single-digit returns over the next few years, we are currently reviewing our asset mix to determine what adjustments make sense to ensure the level of long-term returns required to cover all current and future benefit costs.

A RESPONSIVE PENSION SERVICES TEAM

We also have a strong team of professionals devoted to member and employer services. OMERS is a customer-centric organization with a quick pulse and keen imagination. The improvements in service efficiency have been truly spectacular, thanks to technological improvements and staff retraining. We now process claims for new retirees within a few days of application, compared with 30 days just two years ago. All pensions are paid the first banking day of each month.

As we offer more on-line options, employers are increasingly accessing services electronically. It saves them time and the plan money. They want more access and more services. As we discuss in the Pension Services section, we are committed to delivering what they want.

We are pleased that active and retired members give our staff a high satisfaction rating for pension services. According to our most recent survey, they view OMERS as a secure, professional, reliable and trustworthy organization.



"Active and retired members give our staff a high satisfaction rating for pension services. According to our most recent survey, they view OMERS as a secure, professional, reliable and trustworthy organization."

COST-EFFECTIVE PROVIDER

We remain dedicated to guaranteeing the security of pensions by being a cost-effective provider. We reintroduced partial contribution rates in 2003 following the end of a four-and-a-half year contribution holiday on December 31, 2002. During the holiday, we saved active members and their employers about $4.5 billion and also enriched benefits for members. We have offered attractive unreduced early retirement incentives, our survivor benefits exceed many plans, and we offer guaranteed inflation protection. OMERS members receive exceptional value for the contributions they pay, at rates lower than other major Ontario public sector pension plans.

ACKNOWLEDGEMENTS

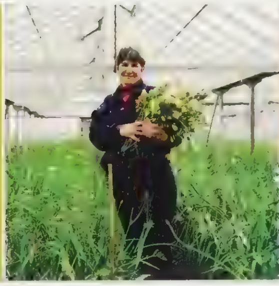
I thank the Board for its support during the past year and throughout my 10 years as President and CEO of OMERS. Plan members are fortunate to be governed by Board members who are committed to working hard to ensure plan participants can count on secure benefits and first-rate service. I especially appreciate the hard work of our employees. They are tremendously loyal to plan members and genuinely care about doing their best for all plan participants, no matter how difficult circumstances may be from time to time.

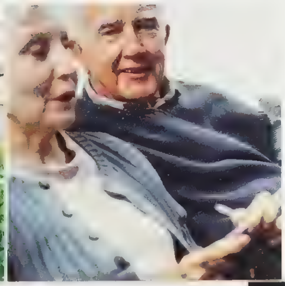
Dale E. Richmond
President and CEO

ready

WE ARE READY TO MEET THE NEEDS OF PLAN PARTICIPANTS.

Our expanding number of web-based services helps members in planning their own retirement and makes it easier for employers to process transactions quickly and more accurately.





OMERS members work for local governments in a variety of occupations including clerks, police officers, firefighters, outdoor workers, librarians, children's aid workers and municipal politicians. What they share in common is a guaranteed pension when they retire.

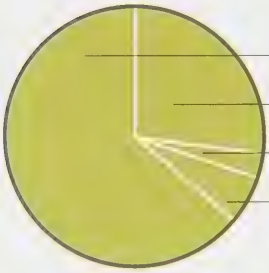
We are making excellent progress in providing more responsive and cost-efficient pension services based on advanced technology systems and a web-based infrastructure. In the past two years, we have reduced the time it takes to turn around claims and other essential services from weeks to days. The completion of each phase of our on-line services opens up new opportunities for innovation and expansion with the ultimate goal of providing members with the most accurate and efficient transactions. To ensure we do not become complacent, in 2003 we will establish long-term service standards so that OMERS remains a pension fund leader in doing the best we possibly can for our members.

Our ability to provide members and employers with fast, accurate and new services has received widespread applause. In the fall of 2002, we conducted our first service satisfaction survey of members, employers and retirees. The initial results were excellent, with most rating their satisfaction at 4 or 5 out of 5 for timeliness, print material and telephone contact. We will track client satisfaction on a regular basis as we search for areas where we can make improvements.

PRESERVING THE PERSONAL TOUCH

While technology increasingly drives our pension services, we have not lost the personal touch. In 2002, we created a call centre staffed by a team of trained specialists who provide front-line service to members. The call centre received more than 80,000 telephone calls in 2002, as well as a 92% client satisfaction rating. The call centre is fully integrated with the team responsible for client action and benefit processing. In addition, we received more than 6,000 e-mails last year, a 36% increase over the prior year, as member comfort with electronic communications continues to grow.

To preserve a personal relationship with plan participants, we launched in 2002 a series of OMERS-sponsored member meetings, in addition to attending meetings convened by employers or union and employee associations. All told, we met face-to-face with more than 9,000 members and employers. These meetings ensure that they have the opportunity to discuss their needs and concerns personally with OMERS at least once every two years.



64%	Active members	209,787
27%	Retired/survivor	89,157
3%	Deferred	9,250
6%	Inactive	18,940
	TOTAL	327,134

MEMBER PROFILE

ADVANCED WEB-BASED SERVICES

We continue to provide our members with advanced web-based services. For example, we have introduced an estimator that enables members to evaluate their "buy-back" options. Buy-backs are one of the most frequent enquiries as members consider ways to enrich their future benefits by buying back previous service, such as leaves of absence. The buy-back estimator is linked to our popular pension estimator so that the members can develop a fuller picture of their pension options. These estimators now attract more than 10,000 visitors per month. In 2003, we plan to launch a comprehensive retirement income estimator that will incorporate assumptions about Canada Pension Plan and Old Age Security benefits and allow the members to include estimates on personal savings, all anchored by the OMERS pension.

We are examining more interactive e-based relationships with active and retired members, including access to their own file information.

IMPROVED PARTNERSHIP WITH EMPLOYERS

We are a pension industry leader in providing e-access services to employers. E-access provides faster and more complete customer service through better information flow and document handling, as well as faster transfer and verification of data.

In 2002, approximately 64% of employers (representing 92% of our active members) registered for e-access. We trained their staff so that they can electronically access and view member files on our system, check the status of benefits, and submit interactive forms for member events such as retirement. As a result, they can inform members promptly of any changes.

We will continue to expand our e-business platform by making it easy for employers to electronically enroll new members, submit remittance information and get pension quotes.

NUMBER OF RETIREMENTS IN PAST FIVE YEARS

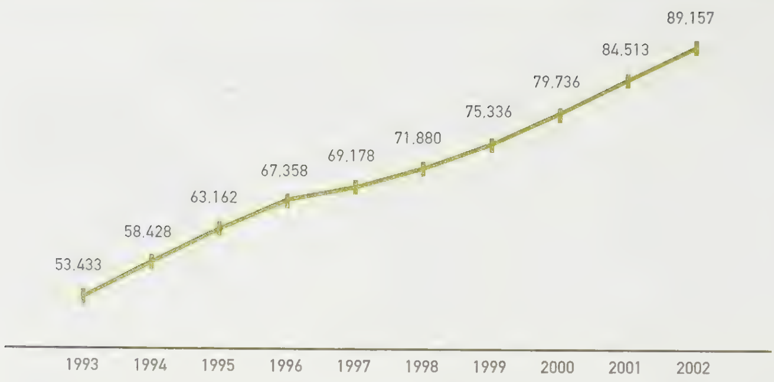
PENSION BENEFITS THAT DELIVER VALUE

OMERS guarantees retirement income for life based on the individual member's earnings and service. The pension is based on 2% of the average of the member's best consecutive five years of earnings, multiplied by the number of years of credited service to a maximum of 35 years. Those with 35 years of credited service no longer contribute. Included in the formula is a bridge benefit to members who retire early, roughly equal to the Canada Pension Plan (CPP) benefit they will receive at age 65. At age 65, the OMERS pension is integrated with the CPP. Each pension is protected against inflation, includes enhanced survivor benefits, provides disability benefits and offers early retirement options. Benefits are portable with many public sector plans.

During the four-and-a-half year contribution holiday, we permanently increased all pensions by lowering the formula used to integrate the OMERS benefits with the Canada Pension Plan when a member turns 65.

The pensions of individual members vary greatly, reflecting the inherent diversity of the OMERS plan. The latest average annual earnings for active members was about $46,100 and the average new pension for 2002 was $17,833. This reflects the average years of service of new pensioners since the majority of members retire with much less than the maximum years of service.

The pensioner payroll grew by $119 million to $1.2 billion in 2002 as the pensioner population expanded by 5.5% to 89,157, including members receiving disability pensions, surviving spouses and dependent children.



GROWTH IN NUMBER OF PENSIONERS

ATTRACTIVE EARLY RETIREMENT INCENTIVE

Of the 7,514 new pensions processed in 2002, 68% were early retirements. That compared with 7,587 new pensions in 2001, of which 68% were also early retirements. To date, 12,297 workers have taken advantage of our temporary early retirement incentives that will be available until the end of 2004. Members within 15 years of their retirement age can retire early up to December 31, 2003. In 2004, the normal requirement of being within 10 years of retirement will apply.

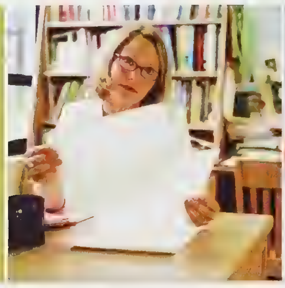
PHASED IN CONTRIBUTIONS

The contribution holiday for employers and active members introduced in August 1998 ended on December 31, 2002. Contributions are being phased in at roughly one-third of normal levels in 2003. For members whose normal retirement age is 65, rates will be 2.1% of salary up to $39,900 and 2.6% after that. For police and fire fighters, who have a normal retirement age of 60, rates will be 2.43% of salary up to $39,900, and 2.93% beyond that. As a result of a decline in the value of assets, the Board has decided that full contributions will begin in January 2004.

OMERS guarantees retirement income for life, based on a members' earnings and service. Our fully-indexed pensions grow each year to keep pace with inflation.

ready

WE ARE READY FOR THE EVENTUAL RECOVERY IN PUBLIC EQUITY VALUES. Meanwhile, we continue to diversify into alternative assets that offer the potential for higher long-term returns.



Our long-term investment horizon and diversified portfolio emphasize stability of returns to pay secure pensions.

The continued collapse of stock markets in 2002 was the toughest test of our investment policy since OMERS began to invest in capital markets. Since 1974, we have been through market booms and busts, hyperinflation and almost invisible inflation, and extremely high and low interest rates. Being prepared for all exigencies is the strength of a sound investment policy.

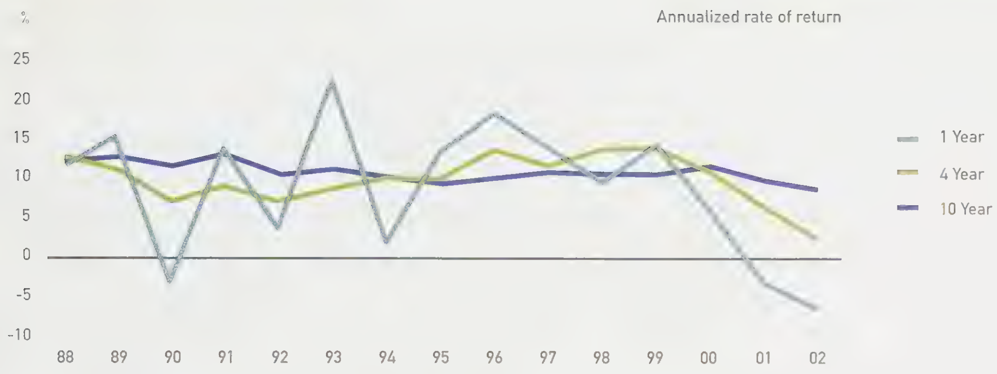
Cycles are the natural rhythm of markets. A correction or downturn normally appears every five to seven years. Following the unprecedented run-up in stock prices since 1995, we had been expecting a severe correction. The recent correction was sharper than generally anticipated. Equities declined for the third consecutive year following the burst of the technology stock bubble in 2000. In addition, corporate and accounting scandals drove many investors from the markets.

LONG-TERM RETURNS REFLECT PROFITABILITY

Markets can be highly volatile in the short term, as they were in 2002. But over the long term, share prices ultimately reflect the ability of companies to grow profits. Short-term market behaviour matters if it reveals weaknesses in our long-term policy. Our current investment policy positions OMERS to benefit when equities recover, although the timing is uncertain. Our strong holdings in fixed-income securities and other assets provide reliable income growth to offset the volatility of stock markets.

A 7.25% INVESTMENT OBJECTIVE

Every year, an independent actuary calculates the plan's funding requirement to ensure that the value of invested assets exceeds the present value of all pension benefits promised to members. The funding requirement is 4.25% above the rate of inflation. Assuming long-term inflation at 3% annually, the nominal investment target for the next several years is 7.25%. While it may be difficult to achieve that target every year in the near future, our investment policy is designed to earn more than the funding requirement over the long term so that the plan maintains a surplus as a cushion against short-term declines in investment values and demographic variables.



COMPARISON OF 1-YEAR, 4-YEAR, AND 10-YEAR RETURNS

MANAGING RISK

Our investment professionals pay close attention to the risks we assume to achieve stability and reliability of long-term income. To reduce volatility, we disperse risk among different asset classes and geographic markets. Each asset class has a different risk/reward profile and time frame to produce optimum returns. We also use derivatives to neutralize risk exposure to foreign currency and interest rate changes.

Our investment professionals manage each asset class to create value above the returns that the markets or asset classes generate passively. Value added is measured as the difference between our performance and the performance of market and asset class benchmarks.

SETTING THE ASSET MIX POLICY

Our asset mix policy selects assets that are most likely to grow in value to cover all the projected costs of current and future benefit claims. Our goal is to construct a policy that mitigates the risk of an increase in the normal level of payroll contributions by members and employers. Over the long term, we expect that investment income will pay close to 80 cents of every pension dollar, with 10 cents coming from member contributions and 10 cents from employers. In view of the investment returns reported in 2002, and lingering uncertainties surrounding the global economic climate, we will review our asset mix policy in 2003 to determine what changes would likely improve long-term returns.

ASSET MIX: POLICY VERSUS ACTUAL

	Policy	Actual Year-End
Canadian equity	25%	25.7%
Foreign equity	35%	34.9%
Canadian debt	25%	22.2%
Real return bonds	2.5%	2.6%
Real estate	12.5%	14.6%

We look for every opportunity to add value to the fund. As a result, OMERS continues to do better than the markets in which we invest

EQUITIES: SUPERIOR RESULTS OVER THE LONG TERM

We have maintained a target allocation for equities of 60% since 1997. Despite wide positive and negative swings in short-term performance, equities produce long-term returns superior to virtually all other asset classes. We ended 2002 with $13.6 billion invested in publicly traded and privately owned equities.

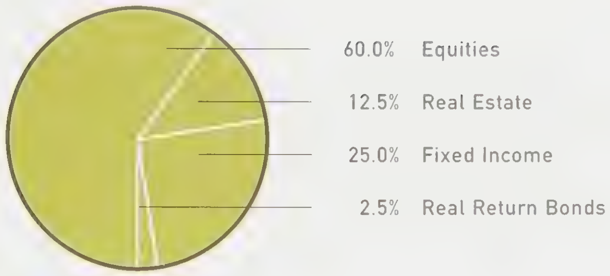
Publicly traded equities are the backbone of our investment strategy and represent about 40% of net investment assets. In committing to these assets, we do not attempt to time the market. We would incur large costs without improving long-term results if we were to liquidate assets every time we expected the market to decline and then rebuilt our position when we expected markets to recover. Our current strategy is to maintain our public equity positions in readiness for recovery. Experience shows that most of the gains occur early in the recovery cycle. It is prudent, therefore, for OMERS to be fully invested at all times.

Two years ago, we reduced Canadian equities from 35% of total assets to 25% and increased foreign equities from 25% to 35%. This shift reduced our risk exposure to the small Canadian market, which has limited diversification by economic sector compared with the United States and Europe and a limited choice of companies within many sectors compared with other markets.

An active Canadian equity manager

Our actively managed Canadian stock portfolios are 95% managed by internal staff and 5% by external managers with expertise in particular market niches. These portfolios totaled $4.6 billion in 2002 and contained the shares of 179 publicly traded and privately owned companies. We are primarily a value investor focused on buying and holding the shares of established and profitable companies that can produce reliable long-term returns. However, our investment professionals have the discretion within approved asset allocation guidelines to take advantage of short-term trading opportunities to generate added portfolio value.

While OMERS is primarily an actively managed fund, buying shares to replicate a recognized stock index is a cost-efficient way to invest in the markets. In Canada, we had $1.2 billion invested in portfolios that replicate the TSX Composite Index.



ASSET MIX POLICY

Participating in global economies

Outside Canada, we had $6.5 billion invested in the equities of companies principally in the United States, Britain, and Europe with much smaller investments in the Far East and emerging markets. This diversity enables us to participate in different economies around the world.

Our actively managed foreign stock portfolios are managed by investment specialists knowledgeable about regional and national markets. In 2002, these portfolios held $5.0 billion in 1,178 stocks. We select individual companies based on value.

Our staff also managed $1.5 billion of investments in U.S. equity indexes, notably the Russell 1000 Index, which provides diversified exposure to large and small companies.

A major constraint on our ability to optimize overall returns is the foreign property limit imposed by the *Income Tax Act* on all pension plans. The Act restricts foreign investments to 30% of total assets at cost. We were in full compliance with the requirement. On a market value (versus cost) basis, approximately 35.8% of total assets were invested outside Canada through direct investments and derivative contracts.

Developing alternative equity holdings

In recent years, we have steadily shifted a portion of our equity allocation from publicly traded equities to alternative assets offering the prospect of higher long-term returns.

We began to invest in Canadian and foreign private equities in 1981 and by 1998 had built a diversified portfolio valued at close to half-a-billion dollars. In the past four years, the private equity portfolio has more than doubled to $1.3 billion, or close to 4.5% of net investment assets.

Another important alternative asset is infrastructure investments, where we are an industry leader. Being stable and long term, infrastructure returns are ideal for a pension fund. We made our first infrastructure investment in 1997 and today own $0.3 billion of assets, including schools, retirement facilities, municipal utilities and energy companies.

RATES OF RETURN VS. BENCHMARK IN EACH ASSET CLASS

A further important alternative to public equities is ownership of income-producing real estate assets, discussed below. We will continue to expand our holdings of alternative assets to further improve returns.

REAL ESTATE: CASH FLOW THAT PAYS PENSIONS

To secure greater stability and reliability of income, we have created one of Canada's largest real estate portfolios. Our asset mix target for real estate has been 12.5% of the total fund since 1996. Currently it exceeds that target with $7.7 billion invested, of which $3.0 billion is financed by subordinated debentures, mortgages and other debt.

Real estate is one of the best assets available to match pension liabilities. It generates superior returns over the long run, acts as a hedge against inflation, produces regular cash flow from the rental income stream, and generally has lower volatility than stocks and bonds.

Our portfolio contains 107 directly-owned properties, including major shopping centres, office buildings, multi-residential apartment complexes and industrial properties. The portfolio was strengthened by the acquisition of Oxford Properties Group late in 2001. In November 2002, we sold a $500 million debenture issue to institutional investors and used the net proceeds to repay other real estate indebtedness. This was our first securities issue since receiving a triple A credit rating from Standard & Poor's and Dominion Bond Rating Service.

FIXED-INCOME INVESTMENTS: STEADY LONG-TERM INCOME

We manage a $11.6 billion fixed-income portfolio of Canadian government and corporate bonds, mortgages, and short-term instruments. Bonds are generally less risky and less volatile than stocks and generate steady income as well as the return of the original capital at maturity. Our investments in corporate bonds, which pay higher returns than government bonds, have expanded in recent years and totalled $1.7 billion at year end.

Though the capital markets continue to underperform, we are acting decisively to add value to the Fund

REAL RETURN BONDS: AN ALMOST PERFECT ASSET

Two years ago, we entered the real return bond market with a policy target of 2.5% of total assets. These securities earn inflation-adjusted returns and are the closest match with indexed pension payments, particularly with most issues maturing over 20 years. At year end we were overweight in real return bonds with $796 million in our portfolio. These securities have performed extremely well.

DERIVATIVES: STRATEGIC PORTFOLIO MANAGEMENT

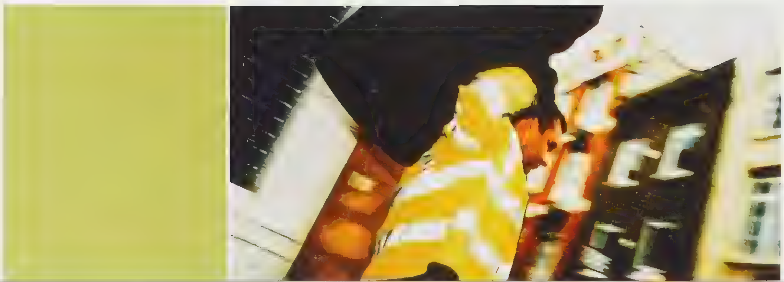
We use derivatives to optimize exposure to both domestic and foreign markets. Derivatives can provide greater liquidity than owning the underlying assets and are a cost-effective form of deploying investment strategies and enhancing overall returns. They also facilitate efficient risk management among different types of assets and global economies. Our derivative contracts are discussed in Note 3 to the financial statements.

The notional value of derivatives in 2002 was $16.9 billion, compared with $20.6 billion a year earlier. Net credit risk exposure at year end was $199 million, or 0.7% of the net assets of the fund. Extensive monitoring and control processes are in place to manage risk.

CORPORATE GOVERNANCE: CREATING WELL-RUN COMPANIES

OMERS owns shares in approximately 400 publicly traded companies in Canada and more than 1,000 companies outside Canada. We encourage these companies to generate shareholder value by practicing enlightened corporate governance. Well-managed public companies, with strong governance processes, generally produce better long-term returns. The most basic governance principles that we support include:

1. Options expensed on the income statement.
2. A majority of directors unrelated to the company.
3. Outside directors as chairs of audit, compensation, nominating and corporate governance committees.



investments provide about 80% of the amount needed to pay pensions. Typically, a retiree gets back the value of his/her lifetime contributions, plus interest, within five years of retiring

- The audit committee being solely responsible for retaining audit firms and for the audit function.
- Directors owning shares in the companies they govern so that their financial interests are aligned with those of the shareholders.
- Options granted to management based on performance tied to measurable financial targets.
- Separation of the Chair of the board and the Chief Executive Officer.

To advance these principles, we join other institutional investors in support of good governance in Canada and elsewhere.

Proxy Voting to Add Further Value

We vote the shares we beneficially own on behalf of plan members on the basis of their best financial interests. All shares are voted either directly by senior OMERS staff or through a specialized external agency.

Our *Proxy Voting Guidelines* set out our policy on various corporate governance matters and indicate how we will likely vote on individual issues. We take into consideration the quality of a company's overall governance in deciding whether to vote for or against specific proposals. The guidelines are intended to be a flexible response to proposals by management and shareholders. Our guidelines and voting record on major proposals for Canadian companies are posted on our web site at **www.omers.com**.

Well-managed companies with strong governance practices generate better long-term returns for our members. We encourage good governance by voting our share proxies

Votes AGAINST Management 2002 vs. 2001 (North American companies)

	2001		2002	
	Total	Against	Total	Against
Insider directors on committees	161	161	[illegible]	[illegible]
Audit issues	[illegible]	[illegible]	[illegible]	[illegible]
Options programs including repricings	318	[illegible]	[illegible]	[illegible]
Takeover protection motions	[illegible]	[illegible]	[illegible]	[illegible]
Social, ethical, environmental	71	38	[illegible]	[illegible]
Other issues	692	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]

We continue to be concerned about the presence of some non-independent directors on audit, compensation and nominating committees. The objectivity of these committees is crucial to modern corporate governance principles. As a result we once again voted against all management proposals that failed to respond to basic governance principles.

The independence and integrity of audit firms are under challenge in the wake of recent scandals regarding the credibility of corporate financial statements. We believe that an audit firm should be retained solely to audit the financial statements and other suppliers should handle other consulting. As a result, we voted against management in all cases where consulting business constituted a potential conflict of interest with audit work.

We enhanced our own governance in 2002 by separating the audit and non-audit functions. From now on, the accounting firm that provides financial statement audit services to OMERS and our subsidiaries will not be able to provide other services, including tax services, to these entities.

Executive compensation continues to be a cause of great concern. Executive compensation must be linked to financial targets that improve corporate governance and achieve pre-determined performance targets. We oppose all repricing of existing options

OMERS believes that well-managed companies demonstrate respect for their employees, the environment, human rights and the communities in which they do business

and defacto repricings such as extensions. Repricing makes a mockery of linking executive leadership to share value. While we voted for 87 option proposals that were within our guidelines, we voted against management on 242 occasions in 2002.

A basic principle embedded in our proxy voting guidelines is that corporate boards should always act in the best financial interests of shareholders even when faced with takeover offers that management does not like. Hostile takeover bids can release shareholder value that might not otherwise be realized. In 2002, we voted against 57 takeover protection proposals by management and voted for 5 resolutions that complied with our guidelines.

Supporting socially responsible investing

As an active equity investor, we consider the potential impact of non-financial factors on future returns. Our *Investment Practices* booklet articulates our position on socially responsible investing. OMERS believes that well-managed companies are those that demonstrate respect for their employees, the environment, human rights, and the communities in which they do business. As a result, we believe that companies should account for their behaviour and its implications for the creation of value. Companies should also publish and update in their annual reports their policies and procedures with respect to social, ethical and environmental issues that materially affect performance.

We believe that generating acceptable rates of return for our plan members and the creation of general economic value are not mutually exclusive. For example, we participate in various infrastructure projects and venture capital initiatives that provide broader benefits to our economy while generating the returns necessary to meet our fiduciary duty to members.

In 2002, we voted against management on 39 occasions and for management on 53 occasions on socially responsible investing issues. Principally we supported motions calling on companies to improve their human rights and labour standards.

OMERS Board

[Governance Practices]

OMERS provides pension services to almost 330,000 members and more than 900 employers who have the right to know how their plan is governed and managed.

Board Mandate

As a fiduciary, the OMERS Board acts in good faith, taking into account the best interests of the plan as a whole, as required by law.

The Board's authority is set out in the *OMERS Act* and *Regulation*. Responsibilities include:

- Setting OMERS strategic direction
- Allocating financial resources
- Recommending plan design changes (subject to provincial government approval)
- Determining investment asset mix
- Approving contribution rates
- Appointing CEO and monitoring organizational effectiveness
- Establishing executive compensation policy

Board Membership

Board members are appointed by the provincial government for a maximum of two three-year terms. OMERS is governed by a thirteen-member board composed of:

- Six employee representatives
- Six employer representatives
- One provincial government representative

Accountability and Disclosure

The Board is accountable for its actions and results, and reports to plan members and employers on how their contributions are managed and invested. The Board holds two regional meetings a year with plan members. It maintains contact with plan participants through consultation with stakeholder groups on key issues, its annual report, website, regular newsletters, benefit statements, presentations and correspondence.

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BELOW

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BELOW RIGHT

ABOVE LEFT
ABOVE RIGHT

LEFT

RIGHT

BOARD MEMBERS

Employer Representatives

Walter Borthwick, Past Chair
Town of Wasaga Beach

Bill Rayburn
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

Frederick Biro
Peel Police Services Board

John Sabo
York Catholic District School Board

Dennis Neethling
Township of East Ferris

Employee Representatives

Rick Miller, Chair
Ontario Professional Fire Fighters Association

Peter Leiss
Canadian Union of Public Employees

David Carrington
Canadian Union of Public Employees

Susan O'Gorman
Ontario Nurses' Association

Dick McIntosh
Retired Member

David Kingston
York Regional Police

Government of Ontario Representative

Nancy Bardecki

Members of Executive Committee

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[illegible] ABOVE RIGHT

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[illegible] RIGHT

SENIOR OFFICERS

Dale E. Richmond
President and CEO

Michael Beswick
Senior Vice President
Pensions

Wayne Gladstone
Senior Vice President
Finance and Administration

Tom Gunn
Senior Vice President
Investments

Debbie Oakley
Senior Vice President
Corporate Affairs

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
KPMG LLP

Legal Advisor
Osler, Hoskin & Harcourt LLP

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

Governance Practices CONTINUED FROM PAGE 23

Board Committees

The Board has four standing committees (listed below) and four sub-committees: governance, audit, compensation and appeals.

Executive Committee
Responsible for Board affairs, government relations, organizational changes. Serves as compensation sub-committee to handle executive compensation and performance.

Investment Committee
Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Pension Committee
Oversees pension administration policy, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes.

Management Committee
Responsible for human resource policies, annual budget, overseeing OMERS strategic plan and major purchases.

Board Self-Evaluation

Independent consultants conduct a Board Effectiveness Survey biannually, examining key dimensions of pension plan governance. The Governance Sub-Committee has stewardship for implementing the recommendations from the survey.

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his performance annually. Day-to day management of OMERS is delegated to the CEO.

The Board appoints the auditor, custodian, and actuary, and regularly solicits legal advice. The Board holds regular in camera meetings without management present. The Board holds two strategic planning sessions each year and requires management to develop a multi-year plan that they are then held accountable for.

The Board seeks advice from outside experts in plan administration and fund investment to assist Board members in undertaking their oversight responsibilities.

There is a mandatory orientation program for new Board members, and an ongoing continuing education program for members at each regular Board meeting. In addition, each Board member attends relevant seminars and conferences.

Audit Sub-Committee

The Audit Sub-Committee meets with the external auditor and reviews the audited financial statements and the effectiveness of OMERS system of internal controls.

In 2002, OMERS separated audit and non-audit functions. Beginning in 2003, the accounting firm that provides financial statement audit services will be prohibited from providing other audit-related work, including tax services.

plan's financial position

Net assets available to pay benefits declined in 2002 as the cost of current and future benefits increased, the value of invested assets decreased, and the last year of a contribution holiday continued to reduce cash inflow.

With equity markets in the most severe downturn in three decades, OMERS had two consecutive years of investment loss, although our investment professionals did better than the markets in which they invest in virtually all asset classes. Nevertheless, we are seeing a depletion of surplus that will worsen if markets continue to decline.

We are confident that investment returns will improve over the long term, although the next few years could prove difficult, putting pressure on future contribution rates.

Growth in liabilities

Over the past five years, the actuarial present value of accrued pension benefits has increased by $11.9 billion, or 57%, intensifying the pressure on investment performance. In 2002, benefit costs continued to increase in response to the expanded pensioner payroll, recently enhanced benefits, and the pensions of newly retired members being calculated on higher salary levels than members who retired many years ago. Inflation, as measured by the Consumer Price Index, also increases annual costs. Based on the December 31, 2001 actuarial valuation, the actuarial present value of accrued pension benefits is projected to increase by approximately $2 billion, or 6.8%, in 2002, to total $33.1 billion.

Investment performance

The role of our investment professionals is to manage a sufficiently large asset base to generate a level of annual investment returns over the long term to cover the costs of all current and future benefits. The market value of gross investment assets totaled $33.0 billion at the end of 2002, a $4.3 billion decline from the prior year end. Our long-term goal is to exceed the funding requirement of 4.25% plus the rate of inflation as measured by the Consumer Price Index.

Within this long-term performance perspective, OMERS continues to do well. Since being empowered to pursue an active investment policy in 1974, the fund has achieved a compounded annual rate of return of 10.1%. Over the past 10 years, the return was 9.1%. These returns are well above the level required to keep the plan fully funded.

Returns are also measured in the short term so that we can determine the impact of current markets and our investment decisions on future returns. If short-term results deviate unusually from market results, we can refine our investment policy and assets mix to better balance fluctuations over the long term.

In 2002, the annualized four-year return (a standard measure in the pension fund industry) was 2.4%, compared with 6.8% for the four-year funding requirement. The one-year return for 2002 was negative 7.1%, the worst single-year performance in our history, compared with 8.1% for the one-year funding requirement.

We are reviewing our asset mix policy in 2003, one year ahead of the normal review cycle, to determine what adjustments may be warranted to improve returns.

The plan's financial position

The cost of all current and future pensions is estimated on a regular basis to ensure the plan continues to meet its commitment to pay secure pensions.

An independent actuary estimates the actuarial value of assets and liabilities, as well as the cost of accruing benefits, based on various economic and demographic assumptions. Three key factors include investment returns, which affect the value of assets, and inflation and salary increases, which affect the value of future benefits. (Current assumptions for these factors are discussed in note 8 to the financial statements). These estimates are prepared every year and are extrapolated long into the future. They assist the Board in making decisions about the plan's financial strategy, including the management of surplus funds.

Valuing the assets

The market determines the value of assets. These values can be highly volatile, with a single year's results being unusually high or unusually low, as occurred in 2002. The actuary performs a calculation to smooth changes in the market value of assets for the current year plus the four preceding years to produce an adjusted market value. This smoothing of asset values provides a more stable picture of the long-term relationship of assets to liabilities.

Valuing the liabilities

To value the liabilities, the actuary examines the plan's demographics – the age, length of service, annual earnings, full-time versus part-time employment, and other factors of the diversified membership. Information is processed on active and retired members, former members who still have entitlements in the plan, and surviving spouses and children who receive benefits. In addition, expected rates of mortality, disability and termination of employment data are factored in.

Calculating the surplus

The estimated $33.1 billion present value of accrued liabilities is deducted from the $35.5 billion actuarial value of assets to calculate the estimated actuarial surplus of $2.4 billion as at December 31, 2002.

The Board has allocated approximately $1.4 billion of the valuation surplus to a Funding Stabilization Reserve as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations, such as accelerated early retirements. The Board has also allocated $990 million to a Contribution Deficiency Reserve to assist in the management of potential future contribution shortfalls.

The current $35.5 billion in actuarial value of net assets includes $6 billion in smoothing, in accordance with standard actuarial practice. As the recent investment losses become recognized over the next few years, the amount of the smoothing adjustment will decline. If new investment gains do not arise in the future to offset the past losses, a funding deficiency could occur.

(Millions)	2002 *	2001
Surplus, beginning of year	$ 4,456	$ 5,804
Increase in net assets available for benefits	(3,736)	(2,631)
Change in actuarial fair value adjustment	3,809	4,152
Increase in actuarial value of:		
net assets available for benefits	73	1,521
Less: net increase in accrued pension benefits **	2,074	2,880
Less: change in contribution liability	27	(11)
Surplus, end of year	$ 2,428	$ 4,456

* Projection based on 2001 valuation and changes in assets and benefits during 2002.

** Includes the change in net liability of full earnings pension.

Asset class performance vs. benchmarks

A short-term goal is to consistently add value above the returns of the markets in which we invest, on a risk-adjusted basis. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. When we exceed the benchmark, we add value to the portfolio over and above the return that comes from the markets. This concept of value added is important even when we have negative returns. The benchmarks are aggregated and weighted to conform with our asset mix policy to provide a benchmark for the total fund.

Our $11.6 billion Canadian fixed income portfolios include $4.3 billion in assets (primarily short-term deposits and bonds) that support our derivative programs. Value-added from these backing assets are attributed to the particular backing asset category. A total of $6.5 billion was invested with exposure to bonds, mortgages, private debt and short-term investments and had a return of 9.5% in 2002 versus 8.3% for the benchmark (the Scotia Capital Bond Universe Index and the Scotia Capital 30-Day T-Bill Index). The gain of 120 basis points over the benchmark primarily reflected the exceptional performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates. Our external managers also contributed to the superior results.

Fixed income assets also include $796 million of real return bonds, our best performing asset class with a 15.3% return.

In the equity category, our $5.7 billion Canadian stock portfolio returned minus 9.3%, a significant improvement over the prior year and ahead of the negative 11.2% for the benchmark (a blend of the S&P/TSX Composite Index, the Nesbitt Burns Small Cap Index, the S&P/TSX 60 Index and a custom private placement index). The value added was, therefore, 197 basis points. Our internally managed active and indexed portfolios did better than externally managed equities.

The private equity portfolio reported a minus 5.2% return, substantially outperforming the minus 11.4% benchmark return (the S&P/TSX Composite Index, FTSE All World, excluding Canada and the U.S, and the Russell 3000 Index). This was the first negative return in many years. Over the past four years, private equities have earned an average annual rate of return of 7.1%, versus 2.1% for the benchmark.

In dollar terms, our worst performing assets were the $6.5 billion of foreign equities with a total return of minus 18.1%. This performance exceeded the minus 18.9% for the benchmark (based on the Russell 3000 Index, the FTSE All World, excluding Canada and the U.S., and a custom derivative and custom private placement index). The U.S. portfolios, which make up about half of foreign equities, recorded the lowest results in this asset class at minus 22.2%, only 18 basis points above the U.S. benchmark.

The $7.7 billion real estate portfolio (funded by $3.0 billion in mortgages and other debt) registered a positive 1.3% return in 2002, a large reduction from the 13% to 14% returns of the previous two years and below our expectations. The 2002 performance compared with a 4.6% return for the benchmark (85% of the five-year smoothed CPI + 4.75%, and 15% of the TSX real estate sub-index). The shopping centre assets generally did well, while lower occupancy rates eroded office returns.

Cash flow

We received $1.4 billion in cash flow during 2002, compared with $1.5 billion the prior year, from interest, dividend, and rental property income. The cash flow was more than sufficient to meet the $1.3 billion in pension obligations during the year.

Cash flow in 2003 and subsequent years will improve now that the contribution holiday has expired and employer and member contributions will return to normal by 2004. In addition, our real estate portfolio is expected to generate reliable cash flow from rental income.

Change in net assets

The plan's net assets decreased by $3.7 billion in 2002 to end the year at $29.5 billion.

Before allocation to administered pension funds we experienced a $2.3 billion loss in net investment income. Foreign equities lost $2.7 billion and Canadian equities lost $717 million, offset by gains of $868 million on fixed-income and $245 million on real estate.

The decrease in net assets was the result of several factors, including a three-year decline in equity markets, one of the worst market declines in a century. In addition, there was a rise in pension costs because of benefit improvements and an increase in the number of retirees, with $1.2 billion paid out in member pension benefits, an increase of $119 million from the previous year. We did not collect normal contributions in 2002, the final year of the contribution holiday.

We also deducted $85 million in administrative costs (the same as the prior year) from net assets to operate OMERS. (Administrative expenses are tabulated in note 12 to the financial statements). Effective in 2002, we expense all management fees associated with private equity funds. While the treatment of these expenses varies within the industry, our new policy ensures these charges are treated in the same way as fees for other investment services. The change contributed to the rise in investment operating expenses from $32 million in 2001 to $68 million in 2002.

Credit Rating

Toward year-end, OMERS gained an AAA credit rating from both Standard & Poor's and Dominion Bond Rating Service. This is the highest rating possible and will provide tremendous flexibility in managing the fund. We will be able to negotiate lower borrowing costs in our real estate operations and expand our business opportunities.

actuarial cost certificate

AS AT DECEMBER 31, 2002 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System was conducted as at December 31, 2001 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of OMERS as at December 31, 2001 and to examine the adequacy of the ongoing contribution structure to maintain OMERS in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the registered pension plan benefits disclosed total going concern Actuarial Liabilities of $30,954.665 million in respect of benefits accrued for service to December 31, 2001. The Actuarial Assets at that date were $35,474.522 million indicating a going concern Actuarial Surplus of $4,519.857 million, of which the Board has allocated $1,547.708 million to a Funding Stabilization Reserve and $924.777 million to a Contribution Deficiency Reserve. The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2001 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was $63.898 million, leaving an overall Actuarial Surplus of $4,455.959 million.

The results of the actuarial valuation also indicated that the levels of member and employer contributions prescribed in the OMERS Regulations, in conjunction with the Actuarial Surplus, are sufficient to meet the Normal Actuarial Cost of benefits to be earned each calendar year until the next actuarial valuation is performed.

We have considered the funded position of the Plan assuming it had been wound up on December 31, 2001. In our opinion, the value of the Plan assets would have been equal to 96.6% of the actuarial liabilities if the Plan had been wound up on that date.

We have considered the likely development of the Actuarial Liabilities during 2002. Further, we have calculated the Actuarial Assets at December 31, 2002. In our opinion, the assets of the Fund at December 31, 2002 are sufficient to meet all the liabilities of the Plan in respect of benefits accrued for service to that date on a going concern basis and a solvency basis and approximately 81% of the corresponding liabilities on a wind up basis.

The actuarial valuation of OMERS as at December 31, 2001 was conducted using membership data and financial information supplied by the Board. We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT & COMPANY

Martin Brown

Martin J.K. Brown, F.I.A.
Fellow, Canadian Institute of Actuaries
February 21, 2003

Daniel J. Morrison, F.S.A.
Fellow, Canadian Institute of Actuaries

responsibilities of management, the actuary and external auditors

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Sub-Committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Sub-Committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Sub-Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Sub-Committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Dale E. Richmond
President and Chief Executive Officer

Wayne Gladstone
Senior Vice President
Finance and Administration

Toronto, Canada
February 21, 2003

auditors' report

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the Consolidated Statement of Net Assets of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2002 and the Consolidated Statement of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets of the Fund as at December 31, 2002 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 21, 2003

consolidated financial statements and notes

Consolidated Statement of Net Assets

(Millions)

As at December 31,	2002	2001
ASSETS		
Investments (note 2)	$ 32,951	$ 37,246
Accrued income	114	120
Amounts due from pending trades	229	176
Goodwill from corporate acquisitions (note 1)	390	460
Other assets (note 6)	286	256
Total Assets	33,970	38,258
LIABILITIES		
Investment liabilities (notes 2 and 4)	2,999	3,565
Due to administered pension funds (note 5)	440	487
Future income taxes	284	346
Amounts payable from pending trades	215	128
Other investment liabilities (note 7)	326	284
Other pension liabilities	201	205
Total Liabilities	4,465	5,015
NET ASSETS (note 8)	$ 29,505	$ 33,243

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board

Rick Miller

Member

Member

Consolidated Statement of Changes in Net Assets

(Millions)

For the year ended December 31,	2002	2001
INCREASE IN NET ASSETS		
Contributions (note 10)	$ 47	$ 36
Total Increase	47	36
DECREASES IN NET ASSETS		
Net investment loss (note 9)	2,245	1,335
Benefits (note 11)	1,302	1,193
Administrative expenditures (note 12)	85	85
Interest on investment liabilities	153	55
Total Decrease	3,785	2,668
DECREASE IN NET ASSETS	(3,738)	(2,632)
Net assets at beginning of year	33,243	35,875
NET ASSETS AT END OF YEAR	$ 29,505	$ 33,243

The accompanying notes to the consolidated financial statements are an integral part of this statement.

notes to consolidated financial statements

YEAR ENDED DECEMBER 31, 2002

Description of the Plan

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *Ontario Municipal Employees Retirement System Act* (OMERS Act) *and Regulation*. The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the OMERS Act. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act* (PBA) of Ontario, Registration #0345983.

a) Funding The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation*, the *Income Tax Act (Canada)* and the PBA.

b) Pensions The normal retirement age is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

c) Death Benefits Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

d) Withdrawals from the Plan Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

e) Escalation of Pensions Pensions benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

f) Income Taxes OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received. The sale of assets in certain subsidiaries may be taxable where OMERS has taken over control of a previously taxable entity.

g) Retirement Compensation Arrangement The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the sponsors and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares or through control of the Board of Directors. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership. Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments

Investment transactions are recorded at the point when the risks and rewards of ownership are transferred. As such, publicly traded securities are recorded as of the trade date of the transaction.

Investments are stated at fair value. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the statement of changes in net assets.

Fair values of investments are determined as follows:

i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.

ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.

NOTE 1 : SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

iii) Real estate, composed primarily of income producing properties, is generally valued annually, by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate which has been recently acquired is based on the purchase price.

Real estate values may also include amounts representing the value of controlling specific assets or groups of assets. Such values are recognized only on acquisition of control of a corporate entity and are reassessed annually with impairment, if any, reflected in investment income.

iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.

v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values where available, or discounted cash flows using current market yields, where quoted market values are not available.

Investment income/loss includes interest, dividends and operating income/loss from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate. The fair value of liabilities is estimated using discounted cash flows based on current market yields.

Non-Investment Assets and Liabilities

The fair value of accrued income, amounts due from pending trades, other assets, amounts due to administered pension funds, amounts payable from pending trades, other investment liabilities and other pension liabilities approximate their carrying amounts due to their short-term nature.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are included in the statement of net assets and are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains/losses on disposal of investments.

Future Income Taxes

Future income taxes which arise in taxable subsidiaries are calculated based on the difference between the fair value of assets and liabilities acquired and the related tax basis expected to exist when the asset is realized or the liability is settled.

Goodwill from Corporate Acquisitions

Goodwill arises on the acquisition of control of a corporate entity. It is calculated as the difference between the cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. Goodwill is not amortized, but in each year subsequent to the acquisition, the value is reassessed and impairment, if any, is reflected in investment income/loss.

NOTE 2 : INVESTMENTS

(Millions)	2002 Fair Value	2002 Cost	2001 Fair Value	2001 Cost
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	$ 4,264	$ 4,264	$ 4,374	$ 4,374
Canadian bonds and debentures	5,018	4,802	6,905	6,730
Real return bonds	796	736	875	898
Private debt	382	364	307	300
Mortgages	1,119	1,063	1,225	1,186
	$ 11, 579	$ 11,229	$ 13,686	$ 13,488
EQUITY				
Canadian equities	5,750	4,870	6,642	5,046
Non-Canadian equities	6,530	6,977	7,452	6,777
Resource properties	148	108	116	105
Canadian private equities	687	686	641	635
Non-Canadian private equities	510	514	528	442
	$ 13,625	$ 13,155	$ 15,379	$ 13,005
REAL ESTATE	7,747	7,689	8,181	7,889
Gross Investments	$ 32,951	$ 32,073	$ 37,246	$ 34,382
less: Investment liabilities (note 4)	(2,999)	(2,932)	(3,565)	(3,554)
Net Investments	$ 29,952	$ 29,141	$ 33,681	$ 30,828

At December 31, 2002, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investments:

($ Millions)	2002 Aggregate Number of Investments	2002 Aggregate Fair Value	2002 Aggregate Cost	2001 Aggregate Number of Investments	2001 Aggregate Fair Value	2001 Aggregate Cost
Canadian interest bearing investments	1	$ 481	$ 479	2	$ 788	$ 782
Canadian equities	2	479	535	2	675	670
Real estate properties	2	917	720	3	1,258	1,086
	5	$ 1,877	$ 1,734	7	$ 2,721	$ 2,538

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest bearing securities issued by the Government of Canada and equity securities issued by Nortel Networks Corporation and the Royal Bank of Canada. Real estate investments above include ownership interest in the Royal Bank Plaza and Yorkdale Shopping Centre properties, both of which are located in Ontario.

OMERS holds a number of investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was $3,741 million at December 31, 2002 (2001 - $4,245 million). OMERS share of the net income earned by these entities was $268 million for the year ended December 31, 2002 (2001 - $165 million) and is included in net investment income/loss.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2002, securities with an estimated fair value of $2,856 million (2001 - $2,223 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of $2,935 million (2001 - $2,292 million).

NOTE 2 : INVESTMENTS CONTINUED

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, requires diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 3).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is hedged back into Canadian Dollar exposure through the use of foreign exchange forward contracts. The Fund's net investments by geographical location of the issuer and by net currency exposure as at December 31 are as follows:

	Geographical Location		Net Currency Exposure	
(Millions – Canadian dollar equivalent)	2002	2001	2002	2001
Canada	$ 19,201	$ 21,601	$ 24,129	$ 27,238
United States of America	5,543	6,101	3,112	3,480
Euro zone [1]	1,578	1,873	730	946
United Kingdom	1,267	1,514	627	756
Japan	930	1,031	476	493
Other Western Europe	695	741	437	452
Other Pacific	400	420	231	185
Emerging Markets	338	400	210	131
	$ 29,952	$ 33,681	$ 29,952	$ 33,681

The above table allocates the market and net currency exposure of Canadian assets backing derivatives to the geographical location / currency of the underlying asset or index from which the derivative contract derives its value.

[1] Euro zone includes the eleven member countries using the Euro currency.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

NOTE 2 : INVESTMENTS CONTINUED

	2002					2001	
	Term to Maturity						
(Millions)	Within 1 Year ($)	1 to 5 Years ($)	Over 5 Years ($)	Total ($)	Average Effective Yield	Total ($)	Average Effective Yield
Cash and short-term deposits	4,264	–	–	4,264	2.84%	4,374	2.21%
Canadian bonds and debentures	861	1,568	2,589	5,018	4.35%	6,905	5.34%
Real return bonds	–	–	796	796	3.30%	875	3.79%
Private debt	–	129	253	382	8.10%	307	6.76%
Mortgages	104	343	672	1,119	5.42%	1,225	5.96%
Total	5,229	2,040	4,310	11,579	3.63%	13,686	4.10%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 29.5 per cent (2001 - 33.7 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments which are designed to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolios. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

- **Swaps**, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.
- **Forwards and futures**, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

- **Options**, which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- **Replacement cost:** represents the cost of replacing, at current market rates, all contracts which have a positive fair value. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be obtained.

NOTE 3 : DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

	2002				2001		
		Fair Value				Fair Value	
(Millions)	Notional Value	Assets	Liabilities	Credit Risk Replacement Cost	Notional Value	Assets	Liabilities
INTEREST RATE CONTRACTS							
Interest rate swap contracts	$ 923	$ 3	$ (10)	$ 3	$ 954	$ 6	$ (15)
Bond index swap contracts	578	7	–	7	304	1	–
Bond options – written	–	–	–	–	100	–	–
Bond options – purchased	–	–	–	–	200	–	–
	1,501	10	(10)	10	1,558	7	(15)
EQUITY CONTRACTS							
Equity index swap contracts	982	44	–	44	848	47	–
Equity swap contracts	70	2	–	2	15	–	(1)
Equity index futures contracts	3,777	11	–	11	4,168	–	(23)
Equity options – written	22	–	(1)	–	105	–	(4)
	4,851	57	(1)	57	5,136	47	(28)
FOREIGN EXCHANGE FORWARD CONTRACTS	10,530	132	(148)	132	13,943	93	(96)
Total	$ 16,882	$ 199	$ (159)	$ 199	$ 20,637	$ 147	$ (139)

The term to maturity based on notional value is as follows:

(Millions)	2002	2001
Under 1 year	$ 16,751	$ 20,078
1 to 5 years	35	463
Over 5 years	96	96
	$ 16,882	$ 20,637

NOTE 4 : INVESTMENT LIABILITIES

Investment liabilities are comprised of secured and unsecured debt and debentures. Mortgages are secured by charges on specific real estate properties and other debt is secured by Canadian bonds.

Subordinated debt represents any direct unsecured obligations to debt holders. OMERS subordinated debt consists of a single issue of OMERS Realty Corporation series A debentures issued in 2002. The maturity date of the debentures is December 31, 2012. The rights of the debenture holders are subordinate to the claims of the Plan pension liabilities.

NOTE 4 : INVESTMENT LIABILITIES CONTINUED

Debt relating to Real Estate operations comprises:

	2002		2002 Weighted Average Interest	2001		2001 Weighted Average Interest
(Millions)	Fair Value	Cost	Rate	Fair Value	Cost	Rate
Mortgages	$ 1,656	$ 1,598	7.45%	$ 1,898	$ 1,889	7.63%
OMERS Realty Corporation Series A debentures	509	500	5.48%	–	–	–
Other secured debt	827	827	1.60%	1,300	1,300	2.28%
Unsecured debt	7	7	6.95%	367	365	7.05%
Total	$ 2,999	$ 2,932	5.50%	$ 3,565	$ 3,554	5.61%

Scheduled principal repayments for each of the five years subsequent to December 31, 2002 and thereafter are as follows:

(Millions)		
2003	$	1,041
2004		98
2005		103
2006		135
2007		129
Thereafter		1,355
Total	$	2,861

Excludes net premium/(discount) on debt of $71 million assumed on acquisition of properties.

NOTE 5 : DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University and the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and are credited with income/loss based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6 : OTHER ASSETS

Other assets are comprised of real estate operational accounts receivable, deferred assets (including prepaid property taxes and insurance, and tenant recoveries for deferred charges relating to real estate), fixed assets and miscellaneous receivables.

(Millions)		2002		2001
Real estate receivables	$	87	$	111
Real estate deferred assets		186		131
Other		13		14
	$	286	$	256

NOTE 7 : OTHER INVESTMENT LIABILITIES

Other liabilities are comprised of real estate operational accounts payable and deferred revenue (including prepaid rents and security deposits).

(Millions)	2002	2001
Real estate payables	$ 219	$ 184
Real estate deferred revenue	107	100
	$ 326	$ 284

NOTE 8 : NET ASSETS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience. Since there is no intention of extinguishing the obligations in the near term, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, management's best estimate assumptions may also change, which could cause a material change in the actuarial present value of accrued benefits.

The following actuarial assumptions have been used in the actuarial valuations of OMERS:

	2002	2001
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases	4.5%	4.5%
Assumed actuarial rate of return on plan assets	7.25%	7.25%

The extrapolation of the actuarial valuation to December 31, 2002, which follows, takes account of amendments made to the plan and approved by the Provincial Government up to December 31, 2002. The most recent amendments to the plan were approved in December 2001. The 2001 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2001.

The valuation includes a Contribution Liability, which was developed in accordance with accepted actuarial practice to stabilize contributions. It is determined as the present value of the temporary increase in the annual normal actuarial cost over the next 24 years, and is subtracted from the excess of the actuarial value of net assets over the actuarial present value of accrued pension benefits before the allocation of reserves.

NOTE 8 : NET ASSETS CONTINUED

(Millions)	2002	2001
Fair value of net assets at end of year*	$ 29,500	$ 33,236
Adjustment to the fair value for actuarial purposes	6,048	2,239
Actuarial value of net assets at end of year	35,548	35,475
Actuarial present value of accrued pension benefits at beginning of year	30,572	27,710
Interest accrued on benefits	2,212	2,028
Benefits accrued	1,175	1,081
Benefits paid	(1,302)	(1,193)
Plan amendments	-	325
Experience losses	(20)	621
Actuarial present value of accrued pension benefits at end of year	32,637	30,572
Actuarial contribution liability	410	383
Total actuarial liabilities	33,047	30,955
Full earnings pension assets	5	-
Full earnings pension liability	78	71
Net liability of full earnings pension	73	64
	33,120	31,019
Excess of actuarial value of net assets over actuarial liabilities	$ 2,428	$ 4,456

* Excludes full earnings pension assets

A portion of the excess of actuarial value of net assets over the benefit and contribution liabilities has been allocated by the Board to a Funding Stabilization Reserve. The amount of this reserve for 2002 is $1,438 million (2001 - $1,548 million). A further allocation of the excess of assets over liabilities has been made to a Contribution Deficiency Reserve, for the present value of the difference between the long-term normal actuarial cost and expected future contributions, in the amount of $990 million for 2002 (2001 - $925 million).

The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

The plan as amended in December 2001 includes an extended early retirement window under which the benefits change each year through 2005. The earliest retirement eligibility age will be 15 years prior to the normal retirement age (NRA) in 2002 and 2003, reverting to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor of 2.5% per year for members not eligible for an unreduced early retirement pension will be maintained for 2002 and 2003, reverting to 5.0% per year in 2004. The years of age plus service required for an unreduced early retirement pension will be as follows:

Year	NRA 60	NRA 65
2002	77	82
2003	79	84
2004	80	85
2005	85	90

NOTE 8 : NET ASSETS CONTINUED

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits is presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. In 2001, the solvency valuation was performed using the actuarial value of assets and a liability discount rate based on 5-year average real return bond yields, which implicitly includes an allowance for the costs associated with future cost of living increases. Starting in 2002, as permitted by the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for the costs associated with future cost of living increases. The prior year's figures are presented on the current year basis, restated to reflect the actuarial valuation conducted as of December 31, 2001.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be $28,281 million as at December 31, 2002 (2001 - $26,608 million). As at December 31, 2002, the fair value of net assets, excluding the full earnings assets, was $29,500 million (2001 - $33,236 million). If the solvency valuation method had not been changed, the restated actuarial present value of accrued pension benefits under the solvency valuation for 2001 would have been $34,418 million, and the actuarial value of net assets would have been $35,475 million. A reasonable allowance for the expenses of winding up the plan would not significantly reduce the assets available for benefits.

NOTE 9 : NET INVESTMENT INCOME/(LOSS)

a) **Net Investment Income/(Loss) Before Allocating the Effect of Derivative Contracts**
Investment income/(loss), before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of $68 million (2001 - $32 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income/(loss) from derivative financial instruments is $(1,120) million (2001 - $(939) million).

(Millions)	2002	2001
INCOME		
Interest Bearing Investments		
Short-term deposits	$ 87	$ 151
Canadian bonds & debentures	388	485
Real return bonds	34	34
Private debt	25	32
Mortgages	85	107
	619	809
Equity Investments		
Canadian equities	104	122
Non-Canadian equities	148	195
Resource properties	14	42
Canadian private equities	19	(20)
Non-Canadian private equities	(22)	5
	263	344
Real Estate Investments	560	381
NET GAIN/(LOSS) ON INVESTMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS [1]	(3,715)	(2,873)
	(2,273)	(1,339)
Less income/(loss) credited to:		
Administered pension funds	(35)	(21)
Supplementary retirement benefits	7	17
	$ (2,245)	$ (1,335)

[1] Includes net realized loss of $1,705 million (2001- loss of $212 million)

NOTE 9 : NET INVESTMENT INCOME/(LOSS) CONTINUED

b) Investment Income/(Loss) by Major Asset Class

Investment income/(loss) by major asset class, after allocating the realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2002	2001
Interest Bearing Investments	$ 868	$ 888
Equity Investments		
Canadian	(717)	(1,239)
Non-Canadian	(2,669)	(1,576)
Real estate Investments	245	588
	$ (2,273)	$ (1,339)

NOTE 10 : CONTRIBUTIONS

(Millions)	2002	2001
Employers, long-term receivables and interest thereon	$ –	$ 4
Transfers from other pension plans	20	18
Other contributions	27	14
	$ 47	$ 36

The contribution holiday that began in August 1998 for both members and employers ended December 31, 2002.

NOTE 11 : BENEFITS

(Millions)	2002	2001
Members' pensions	$ 1,153	$ 1,034
Commuted value payments and Members' contributions plus interest refunded	102	125
Transfers to other pension plans	47	34
	$ 1,302	$ 1,193

NOTE 12 : ADMINISTRATIVE EXPENDITURES

a) Operating Expenses

(Millions)	2002	2001
Personnel services	$ 43	$ 42
System development and other purchased services	26	26
Premises and equipment	11	12
Professional services [1]	3	3
Transport & communication	2	2
	$ 85	$ 85

[1] OMERS corporate professional services includes actuarial costs of $ 0.9 million (2001 - $0.5 million), audit costs of $0.4 million (2001 - $0.4 million) and legal costs of $1.0 million (2001 - $1.0 million).

NOTE 12 : ADMINISTRATIVE EXPENDITURES CONTINUED

b) **Executive Compensation**

The compensation table represents disclosure of base salary, annual bonus and other compensation earned in 2000, 2001 and 2002 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus [1]	Other Compensation [2]	Taxable Benefits
Dale E. Richmond	2002	$ 328,503	$ 113,567	$ –	$ 30,695
President and C.E.O.	2001	319,729	99,359	15,380	29,254
	2000	310,473	–	23,892	22,048
Michael Beswick	2002	$ 211,730	$ 158,853	$ 10,577	$ 16,768
Senior Vice President	2001	174,904	55,078	8,510	17,738
Pensions	2000	164,187	19,982	7,964	9,814
Wayne Gladstone	2002	$ 217,846	$ 67,600	$ 10,577	$ 13,511
Senior Vice President	2001	193,658	56,320	9,615	13,281
Finance and Administration	2000	165,148	18,982	12,836	11,662
Tom Gunn	2002	$ 295,761	$ 228,575	$ 23,893	$ 1,381
Senior Vice President	2001	284,864	197,186	30,744	1,332
Investments	2000	274,569	92,000	22,840	1,232
Debbie Oakley [3]	2002	$ 189,385	$ 50,685	$ 9,600	$ 837
Senior Vice President	2001	157,318	8,313	7,212	11,680
Corporate Affairs					

[1] Based on prior year's performance

[2] Includes vacation cash-in and car allowance

[3] Promoted to the position October 2000

NOTE 13 : COMMITMENTS

As part of normal business operations, OMERS enters into commitments to fund investments in the future. These commitments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2002, these commitments totalled $3.2 billion (2001 - $1.5 billion).

NOTE 14 : RELATED PARTY TRANSACTIONS

OMERS has entered into an asset management services agreement with an investee (the "Asset Manager") in the asset management business, in which OMERS owns 29 % of the voting shares. Effective June 2002, OMERS sold the asset management business of OMERS Realty Corporation to the investee for cash consideration of $11 million.

The Asset Manager provides management services for assets that total $7,490 million as at December 31, 2002. Payments to the Asset Manager during the period were $12 million and, as at December 31, 2002, $4 million was due to the Asset Manager and has been included in other investment liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

($ Millions)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
NET INVESTMENTS AT MARKET*										
Debt	11,579	13,686	13,525	11,566	12,947	10,625	8,554	6,737	6,560	6,673
Equity	13,625	15,379	18,544	19,586	15,587	16,022	14,612	12,149	11,935	11,570
Real Estate **	4,748	4,616	4,437	4,126	3,995	2,729	2,450	[illegible]	[illegible]	1,846
	29,952	33,681	36,506	35,278	32,529	29,376	25,616	[illegible]	20,646	20,089
ASSETS AT MARKET VALUE*										
Total Fund	29,505	33,247	35,875	34,930	31,380	[illegible]	[illegible]	[illegible]	18,389	17,778
Liability for:										
Supplementary agreements	172	[illegible]	148	[illegible]	116	[illegible]	[illegible]	[illegible]	134	[illegible]
Administered pension plans	440	487	[illegible]	[illegible]	437	395	341	[illegible]	2,463	[illegible]
	30,117	33,895	[illegible]	[illegible]	31,933	29,613	25,840	[illegible]	20,986	20,279
INVESTMENT INCOME/(LOSS) EARNED (INCLUDING REALIZED & UNREALIZED GAINS)										
Basic Plan	(2,245)	[illegible]	[illegible]	4,598	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Supplementary benefit agreements	7	[illegible]	[illegible]	16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Administered pension plans	35	26	[illegible]	69	[illegible]	51	[illegible]	[illegible]	[illegible]	[illegible]
	2,273	[illegible]	2,100	4,683	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONTRIBUTIONS RECEIVED FOR										
Basic plan	–	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Basic plan unfunded liabilities	47	[illegible]	[illegible]	[illegible]	[illegible]	21	[illegible]	[illegible]	[illegible]	[illegible]
Supplementary benefit agreements	–	–	–	–	–	–	–	[illegible]	–	[illegible]
	47	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAYMENTS TO MEMBERS										
Pensions paid	1,153	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Contributions and interest refunded	102	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Transfers to other plans	47	[illegible]	8	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	1,302	[illegible]	1,045	1,005	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXPENDITURES										
Administration	85	[illegible]	[illegible]	[illegible]	[illegible]	40	[illegible]	[illegible]	[illegible]	[illegible]
Investment operating	68	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	153	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	7.1%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	19.3%	14.2%	1.8%	[illegible]
Benchmark	7.4%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	18.0%	16.1%	1.1%	[illegible]
Funding Requirement	8.1%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.4%	6.0%	4.5%	[illegible]

* Market Value as at December 31.

** Net of Investment Liabilities.

OMERS
One University Avenue, Suite 700
Toronto, Ontario M5J 2P1

Telephone 416.369.2400
Toll-free 1.800.387.0813
E-mail client@omers.com
www.omers.com

Disponible en français

ISSN 1400-0660

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